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The new 535i you see here abundantly fulfills the promise of its athletic shape. Its 208-hp 6-cylinder sprints from 0 to 60 in just over 7 seconds, while its sleek, stable body and patented fully-independent suspension let you dance through corners with ease.

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And its host of inventive safety features includes superior anti-lock brakes and unitized steel construction designed to absorb 35% more impact energy than U.S. crashworthiness standards require.

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Side Lines

Getting the figures while they are still fresh

This is Forbes' 41st Annual Report on American Industry, the oldest and most comprehensive study of its kind. This year we increased our survey universe by over 8%, to 1,116 public companies, to include more midsize firms. It is a testimony to the diversity and competitiveness of U.S. business that although—with the exception noted below—it required $400 million in revenues ($475 million for banks) to make the list, so many companies qualified. It is clear from this list that there is no real concentration of power in U.S. industry.

What makes our listings and the accompanying statistics so useful is that they appear at the dawn of the new year, months ahead of the audited corporate figures—which don't appear until the year covered is almost ancient history. Our survey is timely and penetrating in its analytical use of the numbers.

This year we have included biotechnology companies, even though we had to relax our size guidelines. We felt biotechnology should not be ignored just because the companies had not yet achieved large revenues.

Each industry article in this issue spotlights one turnaround candidate. Each is a company that has fallen—rightly so—from investor favor but deserves reconsideration. Among them: General Motors, Amax, Mellon Bank and Seagate Technology.

We take most seriously the preparation of this special issue, dedicating to it this time the efforts of 30 writers, editors and reporters as well as some 20 statistical people—50 staffers in all.

The chance of a lifetime, but act fast

Unless you are one of those few people who don't have a listed telephone number, you've heard from them, the penny stock touts. Representing such outfits as Blinder, Robinson, Power Securities and Investors Center, they work the telephones promising folks a chance to make a killing in penny stocks—"the growth stocks of the future, but you'll have to act fast; I've got only a limited number of shares." Amazingly, tens of thousands, maybe hundreds of thousands of suckers swallow this obvious bait. It is one of the great miscarriages of American justice that dealers in worthless and near-worthless penny stocks have been able to harvest hundreds of millions, if not billions, of dollars from the public without serious action by the authorities. Owing, in good part, to an exposé in Forbes *(July 16, 1984)*, Robert Brennan had to pull down his nameplate at First Jersey Securities and cease his shameless shilling on TV. But you can't seem to stop these fellows: The First Jersey offices and many of the personnel simply resurfaced under other names. Meyer Blinder of the notorious Blinder, Robinson (Forbes, *Apr. 20, 1987*) has been stiff-arming the SEC in the courts for years, and he goes right on fleecing the public.

But the crooks' luck may be running out. Arnold (Charley) Kimmes, one of the godfathers of the stock fraud business, is singing on his old pals to the IRS. How did it happen? "Never, but never, give a sucker an even break" tells the story. It was written by Richard Stern (who did the Forbes article that helped put First Jersey out of business), Matthew Schifrin (who exposed Blinder, Robinson) and Claire Poole. Page 46.

James W. Michaels
Editor

HOW WE SEE THE TAX REFORM PROBLEM.

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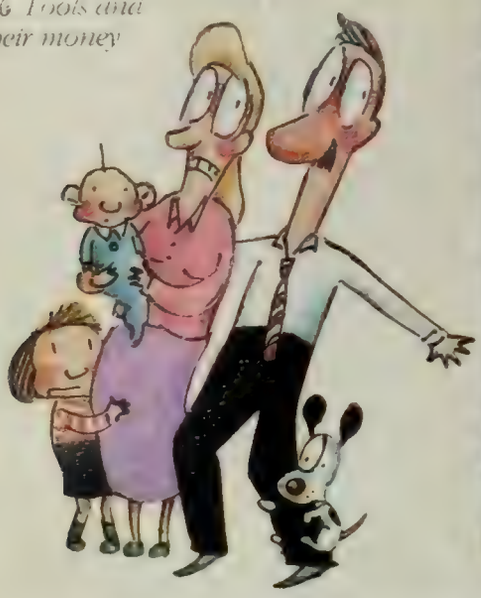

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Follow-Through

Istvan Banyai

Ashes for a Phoenix thrift

May 30, 1988

Last spring FORBES blew the whistle on $6.1 billion (assets) Western Savings of Phoenix and its slick-dealing president, Gary Driggs. Western was posting healthy numbers, but that was largely because of the creative accounting done by Driggs, the grandson of the institution's founder. Driggs, along with his family, owns more than 20% of Western's stock. Western, Arizona's second-largest thrift, was involved in a lot of shaky real estate deals, had sold off branches to increase equity and had canceled an already declared cash dividend in order to stay afloat. FORBES decried Driggs' "fancy arithmetic" and "creative" banking, and asked where the regulators were.

Ask no more. Gary Driggs and his brother, John, Western Savings' chairman, resigned from the company in early December amid reports that federal regulators had forced them out. Western announced sharply lower earnings for 1988, and its stock, which traded on the New York Stock Exchange at around 20 in 1987, was recently mired at 2½ a share. While Western depositors are insured by the FSLIC, and the thrift claims to hold enough capital to meet regulatory requirements, the damage done by the Driggs brothers will take some time to repair.—**Edward F. Cone**

No gain, much pain

May 16, 1988

Jerry Weintraub

Eight months ago FORBES reported that flamboyant Jerry Weintraub, the music promoter turned moviemaker, had lined up half a billion dollars to finance movies and television shows for his fledgling Weintraub Entertainment Group. For his own $11 million investment, Weintraub got an excellent deal: He kept 49% of the common shares and 77% of the voting shares. Weintraub was banking on the success of his first theatrical releases to ease the burden of his heavy debt load. But FORBES, noting the tough times nearly every other independent studio was facing, wondered why anyone would invest such huge amounts of money in a startup.

We're still wondering. Weintraub's first two films, *Fresh Horses* and *The Big Blue*, died at the box office, pulling in under $12 million between them in the U.S. The group's third film, *My Stepmother is an Alien*, looks like another dog. After losing money last year, Weintraub Entertainment Group has already lost over $11 million in its first nine months. And Jerry Weintraub? While he still enjoys a seven-year employment contract guaranteeing him $1.5 million a year, Weintraub, a big money raiser for President-elect George Bush, is going to Washington to chair pal George's inaugural bash.—**Peter Newcomb**

David Carter

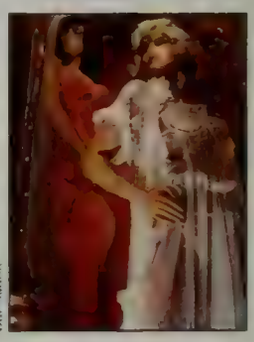
Rough ride

Oct. 31, 1988

John K. Hanson

Last fall FORBES reported on the production and management turmoil at Winnebago Industries, the $400 million (sales) maker of motor homes. The situation seemed to have stabilized: Chairman John K. Hanson, whose family owns 47% of the stock, had fired two top executives and reasserted his control of the company, and Winnebago still had a strong balance sheet and a good reputation with the public. Some brokers were pushing the stock, and FORBES saw a smoother road ahead for the company.

But Winnebago keeps hitting potholes. Its fourth-quarter writeoffs were worse than expected, reducing 12-month earnings to 11 cents a share, from 78 cents the year before. More disturbing are the growing complaints over Winnebago's discontinued line of diesel-powered motor homes. The company sold 7,800 of these vehicles (average price $25,000) between 1983 and 1986. It has been settling scattered claims over blown engines and transmissions, but now Mark Steinbach, a Washington, D.C. lawyer, is preparing a class action lawsuit. Potential liability? The nonprofit Center for Auto Safety seeks $100 million, but Winnebago isn't likely to pay anywhere near that amount. Replacing 75% of the diesel engines with gas engines, for example, would cost Winnebago about $18 million. With $62 million in cash and $160 million of equity, Winnebago can ride out this problem. Encouragingly, the company was back in the black in the fiscal first quarter on 21% sales growth. But more detours it doesn't need.—**Rick Reiff**



Bill Sutton

Skimpy garments, big profits

Dec. 30, 1985

Push-up bras and crotchless panties weren't drawing customers to Frederick's of Hollywood, the chain of racy lingerie stores, FORBES reported three years ago. "Is sex going out of style?" we wondered. The chain had posted the first loss in its 40-year history, and its stock had sagged to 5½, one-third of its high. Frederick's suggestive catalogs and the treat-your-wife-like-your-girlfriend style of its stores seemed out of place in the Reagan Eighties, and an attempt at diversification was failing. George Townson, the new chairman, faced the dilemma of reinvigorating his company without losing its unique nature.

But Townson seems to have turned the trick. Sales in 1988 were a record $65 million, earnings increased to $1.7 million in 1988 from $1 million the previous year, and the stock has recovered to $10 a share. How did Townson do it? He installed new management, revamped the catalog—opting for models instead of drawings—and tightened financial controls at the chain's 148 stores. He is also pressing on with Frederick's Private Moments chain of higher-priced designer apparel. America may be more conservative these days, but Townson has shown that his Hollywood institution has a future.—**E.F.C.**

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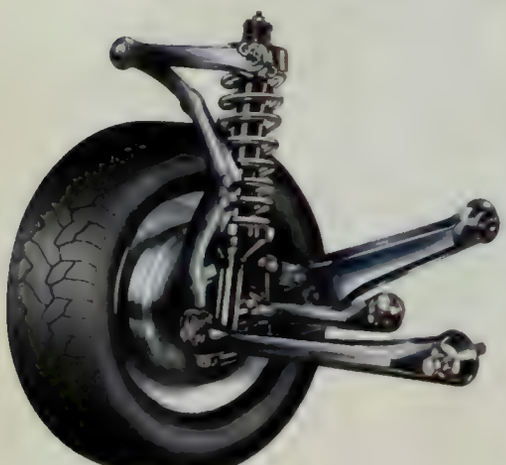

They said it couldn't be done.

That it would be impossible to create a suspension system that combined handling and ride without compromising either one. Then put it on a car that didn't cost a small fortune.

But the engineers at Honda ignored the naysayers. And found the answer: Arms.

The upper and lower ar keep all four tires virtuall perpendicular to the road outstanding handling and stability. Which frees up t springs and shock absorbe to do exactly what they w designed to do: absorb ro shock. That way, you don have to.

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ride so well, st a few arms.

You'll find this advanced ouble wishbone design on the Honda Accord. (And to your eft). It was inspired by the ouble A-arms used on race ars. Honda was first to use hem on all four wheels of a ront-wheel-drive car. With a light twist.

What all this means is that you will enjoy a comfortable, smooth ride as you put the responsive, 2.0 liter, fuel-injected 120 horsepower LXi engine through its paces.

And you'll appreciate the spacious interior, with standard air conditioning, full-logic AM/FM stereo cassette, power moonroof and driver's seat with adjustable lumbar support.

In the meantime, Honda engineers will keep looking for other innovative ideas.

It is a challenge they welcome with open arms.

HONDA

The Accord LXi

Forbes Informer

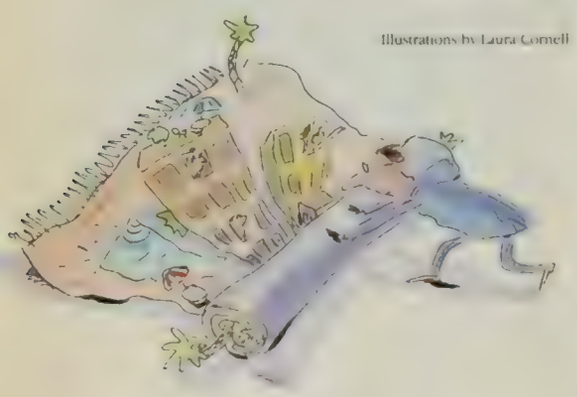
Edited by Gretchen Morgenson

The roll-up racket

Southmark Corp. last year consolidated 35 of its real estate partnership programs into one, National Realty L.P. Among other benefits, Southmark claimed that rolling up the partnerships would achieve economies of scale. Security holders went along with the deal.

The predicted cost savings are proving elusive. National Realty's most recent financials show that for the nine months ended Sept. 30 "other operating expenses" jumped 47%, from $4.3 million to $6.3 million. A cryptic entry called "fees to affiliates" jumped more than 427%, from

Illustrations by Laura Cornell



$137,000 to $722,000.

Company says the increases in operating expenses are the result of a change in the "allocation of the general partner's and affiliates' overhead incurred in connection with administration of partnership properties." How would you put that in English? We'd say the guys who are running the place simply raised their own pay.

Swami River

Connecticut General Life Insurance Co. is the proud new owner of 64,000 acres in remotest Oregon. The rugged tract near Antelope (pop. 60) went on the block early December at a sheriff's sale and Cigna, which held the mortgage on the property, was sole bidder. Price: $4.5 million, just $70 an acre.

The land had been the base for Bhagwan Shree Rajneesh, the corrupt Indian guru whose cult crumbled in late 1985 amid an avalanche of charges, including immigration fraud, assault, arson and poisoning local salad bars. The Bhagwan has been deported to India, which was not especially happy to see him.

What will Cigna do with the property? Good question. The Bhagwan's followers spent an estimated $100 million developing what had once been the Big Muddy Ranch. The property straddles the Big Muddy River and includes hundreds of houses and huts, a shopping district, an airstrip, artificial lakes, a motel, a discotheque, a crematorium, and a greenhouse that, appropriately enough, doubled as the cult's assembly hall. Cigna says it hasn't figured out what to do with the property yet. How about turning it into an amusement park—Swami River?—**Jason Zweig**

J.P. Laffont/Sygma

Somewhere near Antelope, Ore.
Cigna enters the Bhagwan zone.

Close your eyes and say AAA

"Event risk"—the sudden impact of a buyout or takeover on a company's financial state—can turn a AAA bond into junk overnight these days. It's gotten so bad that some people are questioning the validity of credit ratings. So the big rating agencies are trying to ease investors' nerves.

Standard & Poor's has formed an event risk task force to consider modifying its rating system. One suggestion was a supplementary ranking from 1 to 5 that estimates the likelihood of an "event" happening. Some companies are squawking; they feel—quite rightly—the supplementary ranking could brand a scarlet T for "Takeover" on their chests.

Moody's, too, is raising eyebrows with its policy on new "superputs," which entitle bondholders to sell out at par to the issuing company if its credit rating is downgraded in a takeover or other significant, unexpected events. Moody's is rating superput bonds one notch higher than existing senior debt if event risk is "meaningful"—that is, if the company is vulnerable to a takeover. Got that? It's being upgraded because of increased event risk, which usually signals a downgrade.—**J.Z.**

Hungary for deals

Single-country mutual funds have been hot lately, and there's evidently room for more. Welcome now the Hungary fund, under consideration by the folks at Bear, Stearns. This year many state-owned companies in Hungary will be allowed to convert to stock ownership, and the Hungarian government is opening a stock exchange, allowing foreigners to buy into and even control companies. The whole thing is still in the future, but Bear, Stearns clearly wants to be there early.

Bear, Stearns says it will probably raise much less than $100 million; more than that amount could not be invested effectively. Money manager George Soros, born in Hungary, may take part in the fund as well. His stock picking hasn't been so great of late, but at least he speaks the language.—**Eric Schmuckler**

Tuning in to Wall Street

If you can't drag the masses back into the stock market, why not bring the stock market to them? That must be the thinking behind Home Shopping Network's most recent plan: to sell a just-invented security—called Cash Index Participation shares—to its 48 million viewers.

Home Shopping Network's broker/dealer subsidiary, Home Shopping Club Securities, has teamed up with the Philadelphia Stock Exchange to sell Cash Index Participation shares—CIPS—to the public. CIPS are the latest Wall Street invention. The shares give investors the chance to play the market by buying or shorting an index equivalent to the S&P 500 or the Dow Jones industrials. They resemble index options, except they never expire. One CIP share equals one-tenth of the value of the S&P 500 index; thus, if the S&P stands at 275, one CIP share would cost $27.50.

The SEC has yet to approve CIPS for

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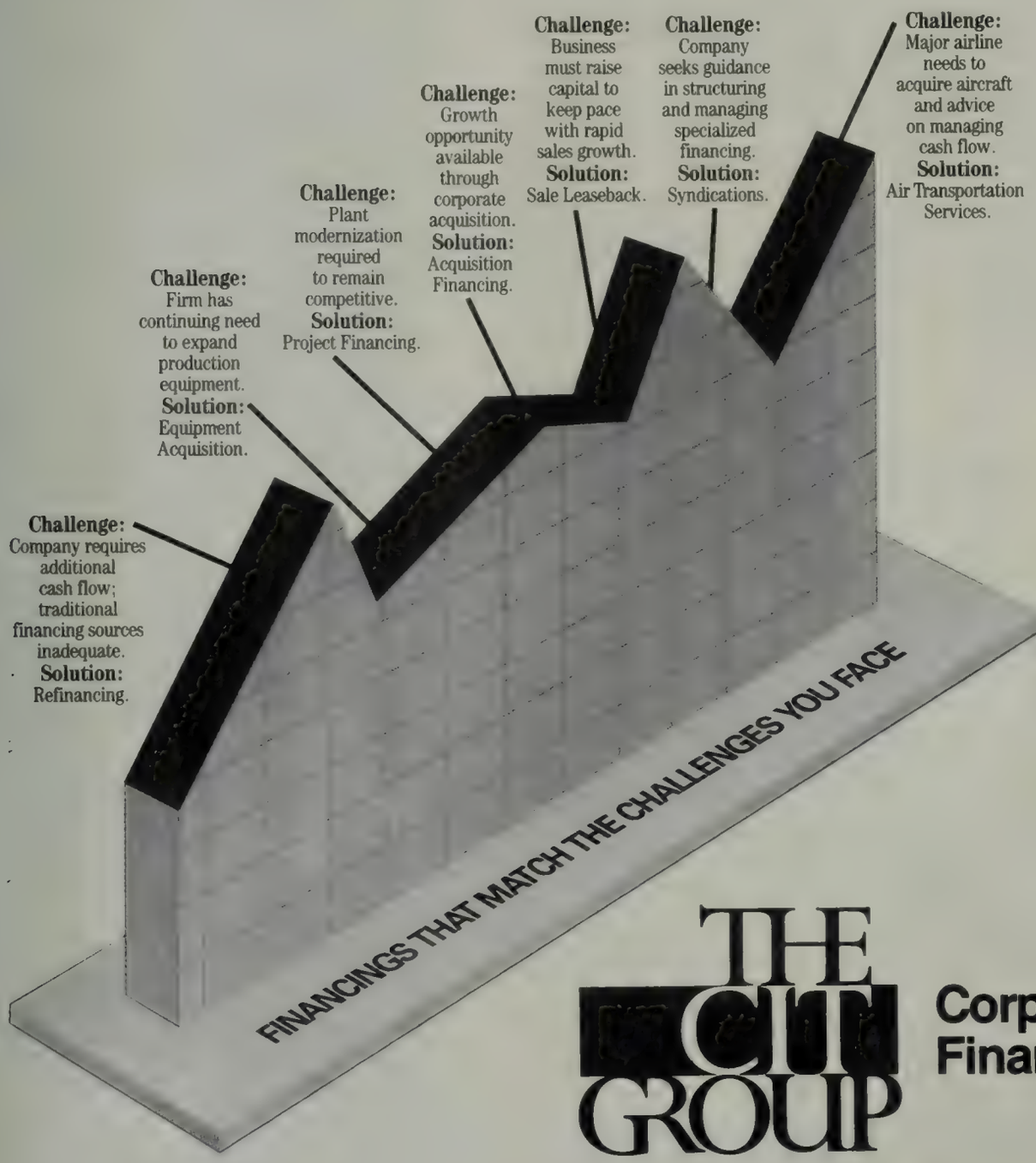

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Corporate Finance

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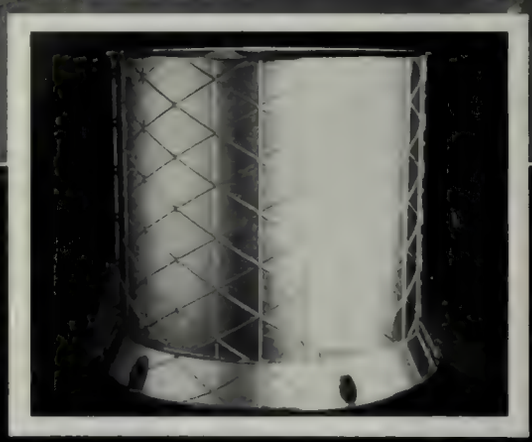

Making Dollars From Change

The one constant in today's aircraft/aerospace industry is change. Change that requires suppliers to that industry to consistently upgrade their manufacturing processes to keep pace with technological advances.

Case in point: Fansteel PSM's new, state-of-the-art facility for producing chemically milled titanium ducts essential to high performance turbine engines — like those flown in F-15 and F-16 aircraft. Chemical milling of these intricate structures is considerably more cost-efficient than machining, so our new facility gives us a strong competitive advantage in a highly competitive industry. And that's what it's all about.

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general consumption. But that hasn't stopped HSN from gearing up. The company expects to devote two to three minutes per hour to flogging CIPS to couch-bound shopaholics. Home Shopping will get a fee for each CIP share that's bought or sold on the Philadelphia exchange. One thing HSN customers should like about CIPS: You can buy them on margin.

Manipulation made easier

To attract more arbitrage business from the major firms, last May the Chicago Board Options Exchange increased the number of index options a firm can carry on its books at one time. Option position limits that were once 25,000 per firm are now 100,000, fully hedged.

One CBOE trader believes this increase allows big firms to move markets, especially when the trading in index puts and calls is thin. Take Tuesday, Dec. 13, three days before the December options were to expire. By 3:30 p.m., most traders were on the sidelines, waiting to act until they heard the next day's trade figures. Then, in the final ten minutes of trading, the S&P 100 index surged three points, which is roughly the equivalent of a 20-point move in the Dow, starting down $1.50 and closing up $1.41. The DJIA was up only 3.9 points at the close of trading.

The trader watching this enormous move believes a big arb firm was holding S&P call options and was short stocks at the same time, a typical hedged position. Trying to turn a fast buck, he believes this outfit started buying stocks to drive the calls up, which it would then exercise.

Manipulation is tough to prove, but examining the volume for the last half hour of the day's trading on the NYSE seems to bear his theory out. In that period, some 16 million shares were traded, roughly the equivalent of 40,000 to 50,000 of the S&P 100 call options in question. The number of calls exercised that day was about 46,000. Making a conservative assumption, the trading probably netted $6 million. Not a bad day's work.

The CBOE has been worried about the public's perception that the stock and option markets are rigged ever since the October 1987 crash. The exchange told our source that it would look into the mysterious Dec. 13 trading for evidence of manipulation. Meanwhile, where did the December in-the-money S&P 100 call options open up the very next day? Down between $1.35 and $1.50. Just about where they were ten minutes to closing the day before.

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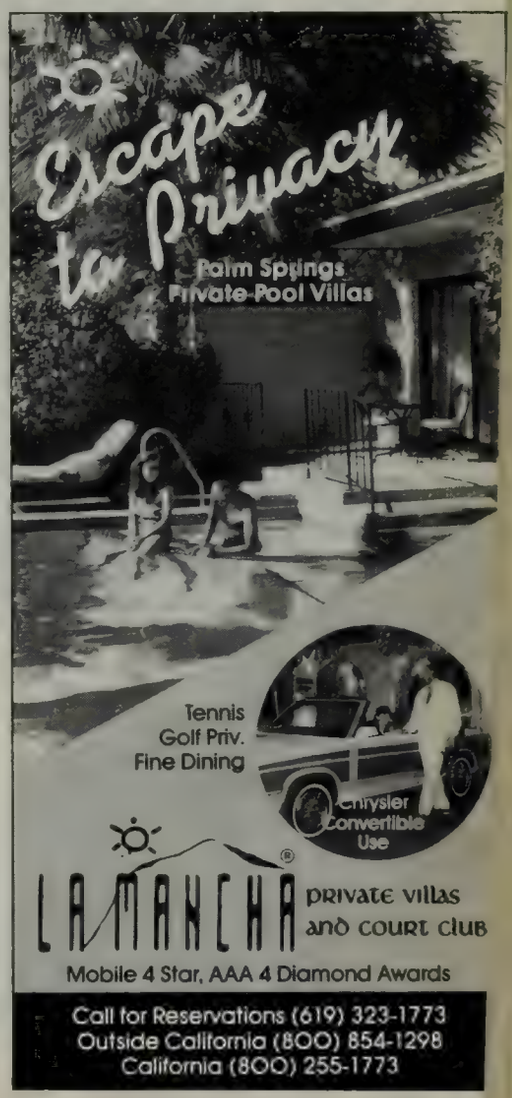

Readers Say

Candor

SIR: Re your article on Fieldcrest Cannon, "Thank you, Mr. Ely" *(Dec. 12, 1988)*. We are not surprised that a publication such as FORBES would stoop to maliciously spreading the truth as it did in that article. Keep up the good work.
—Paul F. Settlemyer
Kannapolis, N.C.

School

SIR: Bravo for your insightful comments on Catholic schools *(Fact and Comment, Dec. 12, 1988)*! As a product of nine years of such education, with no choice in the matter, I thought the discipline was God's way of getting back at me for my youthful imprudence. But, in my middle age, I'm convinced that it was perhaps the most profound decision my parents ever made.
—Ray McCool
Madison, Wis.

SIR: You have done all of independent education a service. All too often corporations and foundations politely decline funding requests because they "do not support secondary institutions" or "do not support religious-affiliated schools." Nevertheless, we will continue to approach corporations and foundations because we know that, eventually, your message will be heard.
—George Winzenburg, S.J.
President,
Marquette University High School
Milwaukee, Wis.

SIR: When a non-Catholic observer with your background and experience urges that the business community support inner-city parochial schools, you provide those who are attempting to raise the necessary funds with vastly increased credibility.
—John J. Nevin
Chairman of the Board,
Firestone Tire & Rubber
Chicago, Ill.

SIR: The mere fact that the students in Catholic schools come from families that care enough about their children to make a financial sacrifice gives them a tremendous advantage. The dropout rate seems to be a pretty simplistic way to evaluate a school system. How many Catholic schools provide breakfast for students that come to school hungry? How many are required to educate any student that shows up on their doorstep?
—Richard T. Russell
Kalamazoo, Mich.

SIR: Where do you suppose children who can't succeed in Catholic schools transfer?
—Carl E. Scheetz
Superintendent,
Hamilton Township Public Schools
Mays Landing, N.J.

Petrodollars

SIR: Your Dec. 12, 1988 Fact and Comment II points out the fallacy of the linkage between the weak dollar, the large budget and trade deficits. Actually there is a linkage. Not the one you so correctly refute, but rather just the opposite.

Much of the world's commerce and international indebtedness is denominated in dollars.

Two items alone—the drop in the price of oil and the reduction of the federal budget deficit since 1985—demand some $180 billion fewer a year. Of course there are offsets like new foreign investment in the U.S., but they don't seem to add up to a couple of hundred billion dollars annually. And yet, there are all those dollars around looking for something to do. The effort to balance our budgets and any further decrease in the price of oil will only lower the value of the dollar.

Isn't it rather curious that the international value of the dollar, the size of the budget deficit and the price of oil all peaked within a few months of each other back in 1985?
—R. Thomas Sour
New York, N.Y.

Fractional rule

SIR: I take exception to your portrayal of the pension rule known as the "fractional rule" ("Look before you leave," *Nov. 14, 1988*). Assume that Jane Doe's pension plan provides for 1% of compensation per year of service, payable at age 65, and that Jane starts at age 25 and quits at age 40 when she is making $100,000. If Jane's plan permits unlimited pension accruals, Jane will not have her $15,000-per-year retirement benefit knocked down to $5,625. In contrast, if Jane's plan were to permit only a total of 20 years of credited service, Jane will have a problem with the fractional rule. Her 20 years (15 earned, plus 5 projected) are multiplied by the $^{15}/_{40}$ fraction to give her 7.5% of compensation for her 15 years, or $7,500 per year.
—John J. McGowan Jr.
Cleveland, Ohio.

Wrong year

SIR: FORBES' table of "200 Best Small Companies" *(Nov. 14, 1988)* contained a significant error relative to the 1988 estimated earnings per share of LIN Broadcasting Corp. The correct number would have been about $1.50 for analysts' average estimates, up from our 1987 actual of $0.99. Perhaps you mistakenly reflected analysts' 1989 estimates in the table.
—Michael Plouf
Vice President-Corporate Development and Treasurer,
LIN Broadcasting Corp.
New York, N.Y.

Our column head should have read 1989 earnings estimate, not 1988 earnings estimate.—ED.

S&L Woes

SIR: Your plea "Has no one the brain, guts to blow the whistle on S&Ls" *(Fact and Comment, Nov. 28, 1988)* will go unheeded unless the violators are given jail terms and heavy fines. When a bank or S&L is operated by the guidelines, and the directors adhere to the guidelines, no bank or S&L should experience problems.
—Anthony V. Miscavige Jr.
Mount Carmel, Pa.

SIR: I am an FSLIC-appointed director of a failed "Management Consignment Program" institution. The negative tangible net worth (without the Alice in Wonderland accounting) has to be made up by the FSLIC/U.S. government before investors are willing to put up the rescue capital. I don't see the "multiple scoundrels." I see institutions that are insolvent and no one is coming up with the cash.
—Albert E. Riley
Palatine, Ill.

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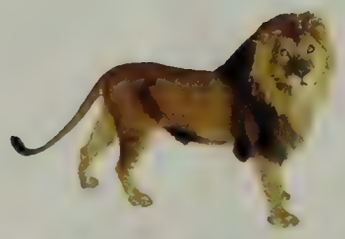

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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

WHAT KIND OF YEAR WILL THIS BE?

A good one.
A very good one.

(And What Did We Forecast for the Year Just Ended?)

We said that 1988 would be "a tougher year but, for those who work harder and with sharper pencils, it should be a decent one."
And for them that did, it was.

IS AT&T'S FIRST-EVER ANNUAL LOSS BAD NEWS?

No. Just the reverse.

Given the fabulous high-tech developments aggressively utilized by starting-from-scratch competitors MCI and Sprint, it became essential for AT&T to replace its remaining outmoded analog equipment with maximum speed.

When a company, giant or little, hesitates to "damage" earnings by modernizing to the state-of-the-art hilt, *that's* the time to sell its stock.

UNDERESTIMATING THE SIGNIFICANCE OF GORBY'S U.N. SPEECH

would be hard and foolish. Capitol Hill and the White House (old and new) and NATO nations are happily proceeding on the premise that what Gorbachev said the U.S.S.R. will do, it will do.

Under the inexorable pressures of a still-spiraling deficit, the impact of Gramm-Rudman and the pounding being taken by the dollar, our military spending is going to go down no matter what Russia does or doesn't. That down will now be more so.

The pressures on the Kremlin's military spending are even greater than on our own because their economy is a basket case and their consumer shelves are empty. As I commented on Financial News Network the evening after Gorbachev's address: "The Soviets have to catch up with the 20th century, the age of computers and communications, and the relaxing of world tensions has the soundest possible motive: It's important to have a domestic economic system that functions. Gorbachev has domestic problems up to his eyeballs. His survival is involved. When the world applauds, and the world sighs with relief, and the world says, 'Wonderful, Russia is joining the world,' this is very important on the Soviet homefront."

On the international scene, it's a whole new deal out there. Global economic health, or the lack of it, is of transcending consequence.

Wars and the military, for the first time since Hitler's advent, are taking a back seat.

SPEAKING OF GORBY, IT WAS GREAT WHEN WE SHOOK HANDS

to have him say, "Ah, yes, the Capitalist Tool!"

Later at the reception, I had a chance to revisit with Foreign Minister Shevardnadze, who is a charmer as well as mighty savvy. When I remarked on the comprehensiveness of Mr. Gorbachev's U.N. address, he said, "We have been working on it for over a year."

Ron Stubblebine/Reuters

Astonished, I said it was too bad to have waited so long for its delivery since it obviously was going to have such an impact on really reducing tensions. Said he, "But these were tremendously complicated matters involving all parts of the Soviet government, so it required a great deal of time and negotiation and persuasion."

AT BREAKFAST WITH THE ARCHITECT OF GLASNOST

Aleksandr Yakovlev is a key member of the Politburo, and, in the words of the U.S. Information Agency's dynamo director, Charles Wick, he has "preeminent influence on current Soviet policy." While the Russian planes were being readied to rush the Gorbachev party from New York to stricken Armenia, Mr. Yakovlev and Valentin Falin, Secretary of the Soviet Party Central Committee, with candor and wit, answered very blunt questions at a Waldorf breakfast hosted by Mr. Wick.

On the Free World press: "Since we haven't been able to change the media, we decided we would have to change."

On the sabotage-ability of a bureaucracy opposed to change: "It reminds me of the lawyer who was assigned to carry on the major case his father was also working on. One day the older counselor couldn't make it to the umpteenth court session before the judge, so he sent his newly licensed lawyer son. When the young man returned that night, he reported triumphantly to his father that he'd been able to settle this endless case. 'My God, what have you done, my son? Three generations of my family have been fed by this case.' "

On the Gorbachev-Reagan-VP Bush luncheon: "You had an advantage. We had only one President present and you had two."

On the withdrawal from Afghanistan: "We are going to fulfill our pledge to have our troops withdrawn by Feb. 15."

BARBARA WALTERS' TV 50th SPECIAL

absorbingly, delightfully reminded us anew how very special Barbara Walters herself is.

Raul Vega Onyx

That audience-grabbing hit was a 2-hour mining of 18-karat nuggets from 120 interviews over the years with the world's powerful, as well as the dazzlers of entertainment and sports. Barbara's genius in getting these eminences to bare themselves is awesome. Even those rare ones noted for not talking, do for Barbara. She knows how to beguile, how to soften her barbed queries with seductive intonation, eyes and smile.

She *is* the greatest.

If you missed that show, see if you can buy a tape.

DECIDING WHICH BUMPER STICKER TO PEEL OFF

Substantially lessening the pollution emitted by power generated from fossil fuels would be immensely expensive. But the very people so significantly vociferous on this subject are usually the same people opposed to nuclear power—which doesn't cause acid rain or ozone depletion or the damage from the accumulation of carbon dioxide.

As Andrew Kupfer wrote in *Fortune,* "People ardently opposed to both acid rain and nuclear power may have to decide which bumper sticker to peel off."

Amen.

SOME BRANDS ARE PROUD AND PROFITABLE NATIONAL SYMBOLS

And the misuse of them rightly irks some patriots.

Over the years softly purred promotions for "Colombian Coffee" have given a quality of excellence to its beans. So it comes as a jolt to see an ad as dumb as this one. At first glance it looks as though the dangerously listing ship is coming rather than going; thus the reference to starboard makes it appear as if the ad creators couldn't tell their left from their right.

Writes one reader, "Either the ship's stern is shaped like its bow, or else its passengers are fleeing the starboard lounge to escape the advertised product." Observes another, "Starboard is the other side. They are probably serving Colombian cocaine in the port lounge." Concludes yet another, "Instead of drinking Colombian coffee—we would be rushing to the port lifeboats!"

Contrastingly, this clever combination of symbols of Dear Old England does well for the product and for Dear Old England. The pun of the caption—"England, known for its rock groups"—illustrated with Stonehenge is a twist that goes well with the one in the gin.

A POWERFUL SALVO RE JAPAN FROM DEPARTING MIGHTY MIKE

It's potentially dangerous that so many of our impressions about Japan are perversely unrelated to the facts. And it's too bad that so many Japanese still don't quite understand where Americans are coming from.

In the past dozen years U.S. Ambassador to Japan Mike Mansfield has bridged this oft-critical gap with intelligent, plain-talking, straightforward common sense. Before pounding Japan with the cliché that it spends little on its defense and we spend much, Mike points out that on the basis of NATO calculations Japan spends $41 billion for defense compared with Britain's $35 billion and Germany's $31 billion.

To those concerned that Japan is buying up America, Mike notes that the Japanese have invested $33 billion in the U.S.A., while Britain owns $75 billion-worth here and the Netherlands, $47 billion.

U.S. presidents and Japanese prime ministers have found his pithful advice and his penetrating perceptions invaluable in untensing differences and building a more solid relationship with Nippon. The economic well-being of much of the world depends on us both. How all concerned feel about Mike Mansfield is set forth in a Special Section tribute to him beginning on page 261 of this issue.

A strong relationship between the U.S. and Japan will be even more economically consequential as the European Common Market becomes a progressively more powerful entity.

In his 85 years, Mike Mansfield has immeasurably contributed to the weal of his countrymen, in 24 years as a linchpin in the United States Senate, and as the capstone between America and Japan for the past eleven years.

What a way to go, Mike!

YOU AND I WILL NEVER READ OR WRITE

anything that couldn't be improved by cutting. Gettysburg Addresses and Ten Commandment tablets are few and far between.

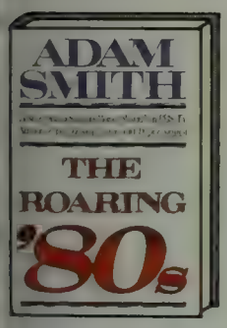
YOU CAN'T GET IN

if you haven't been out.

IF YOU DON'T WANT IN

get out.

BOOKS

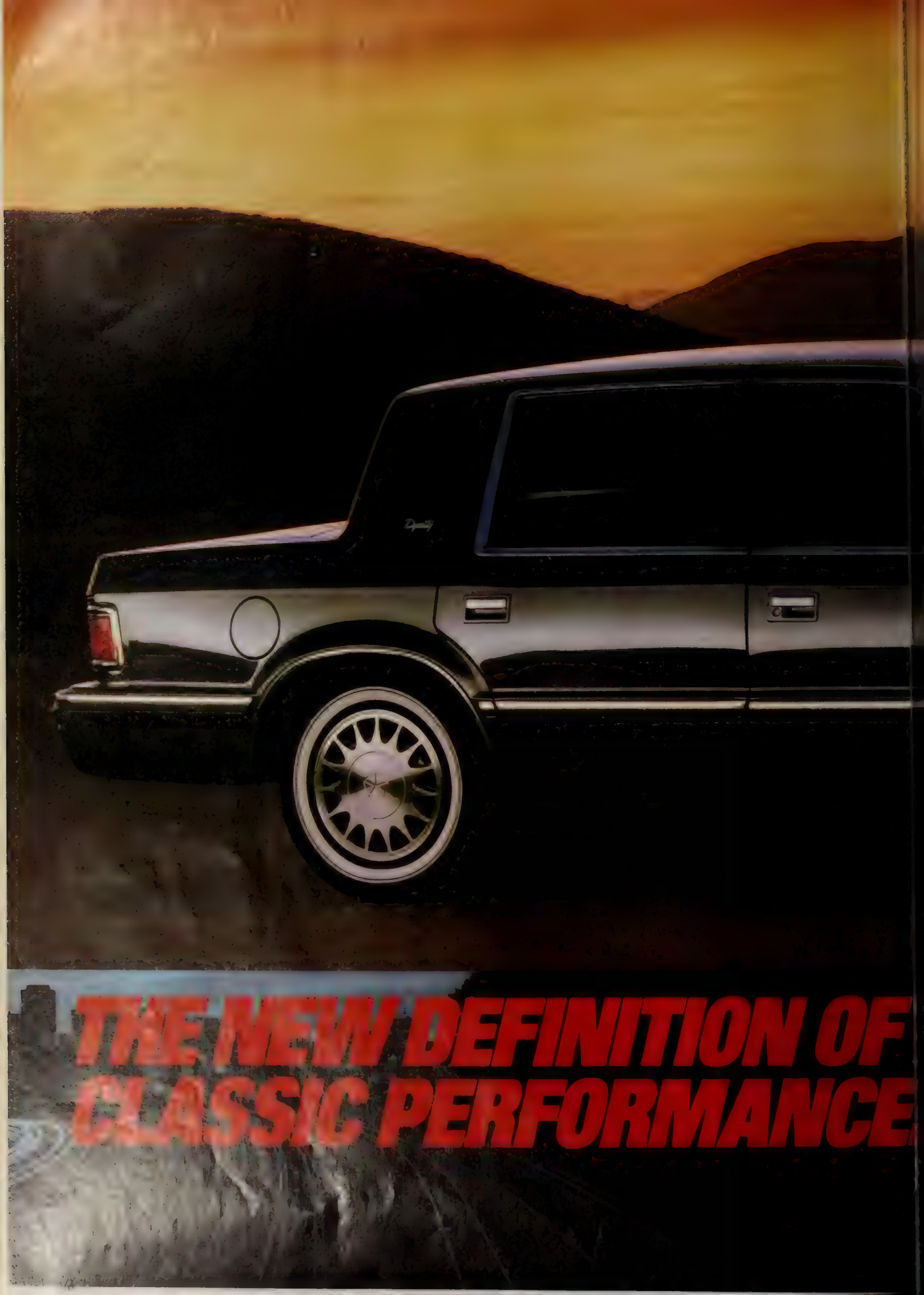


● **The Roaring '80s**—by Adam Smith (Summit Books, $18.95). Renowned host of TV's *Money World,* Adam Smith discerningly draws out the wheels of that world. He comments with concern and insightful acumen on this soon-to-end decade. Smith clearly doesn't think the dazzling money twirlers will get away with it for yet another ten.

Excerpts: *Jobs that have grown up [in the U.S.] are in the service sector: marketing, data processing, consulting, design—"knowledge" industries. These are industries where the assets are not huge turbines churning out hydroelectric power to produce aluminum—the assets are people. They go down in the elevator every night. If enough of them leave, the company is hurt. If a group of them form a splinter and then start their own company, they may well compete with the parent company. We have heard about the "information society"; one of the aspects of the information society is that the corporations have to be more agreeable places in which to work because the people produce the work—not a machine tool or a turbine. . . . I'm still struck—remembering the distant echoes of the survivors of the Depression—when I hear people say they quit a job because they were bored, or because they had done it long enough, and now they are going to look around. What strikes me is that confidence that there will be something there when they are ready to go back to work—something more interesting and better-paying.*

● **Prime Times, Bad Times**—by Ed Joyce (Doubleday, $19.95). This is yet another engrossing volume on the machinations that go on to determine what and who bring the news to your television screen. CBS, its current stars and past, get a going-over by one who was there and who climbed from reporter to president of the network News. His total verbatim recall of countless conversations during those 30 years strains credulity.

Excerpt: *In the fall of 1981 Tom Wyman served notice on CBS News that a new day had dawned. He told the group that CBS "does not plan gavel-to-gavel coverage of the 1984 conventions." I'd gotten a preview of this the first time I met Wyman. It was the day after the 1980 Republican convention. [He] seemed obsessed by the convention he'd just attended. He couldn't believe the amount of money CBS had invested in its coverage or the amount it lost because it preempted regular prime-time programming. It was as though he had personally encountered the Bermuda Triangle of corporate profits. As I listened to him instructing Gene Jankowski on the writing off of gavel-to-gavel coverage and discussing the need to find a proper forum for the announcement, I was depressed that a decision of this significance was being mandated by someone who only a few months earlier [for Pillsbury Corp.] was measuring the volume of frozen peas being moved off supermarket shelves.*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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Super Star

What a startling scene: New York police clear Broadway for a visiting Soviet leader's hurtling motorcade while a giant sign flashes a hammer and sickle in lights and welcoming citizens chant, "Gorby! Gorby!" Five years ago, the only way one could have imagined such a scene is if there had been a war, won by the other side. Mikhail Gorbachev's triumph was of a much different sort. In a compelling speech before the U.N., he proposed, in effect, to abandon the cold war.

—*New York Times* editorial

Hammer on Gorby

Armand Hammer, the 90-year-old chairman of Occidental Petroleum Corp., believes Gorbachev "will go down in history as one of the great world leaders, if somebody doesn't bump him off." Based on recent meetings with Gorbachev and U.S. leaders, Dr. Hammer said, "both sides are beginning to trust each other. You must remember that Mr. Gorbachev is the first Soviet leader who's had a college education. He sees that capitalism isn't going away. I believe in Mr. Gorbachev's sincerity. We shouldn't be cynical; we should give him a chance."

Dr. Hammer, whose company is based in Los Angeles, a defense-industry stronghold, had an interesting, cryptic comment on how the defense industry should react to the Gorbachev overtures: "They ought to be thinking about diversifying."

—*Wall Street Journal*

Buffalo Chips

When you take a blue-chip company and turn it into a buffalo-chip company, that's not a good situation.

—Robert A. Brusca, chief economist for Nikko Securities International, in *Fortune*

Dangerous First Lady

One thing that I, a Dukakis voter, am sure to love about the Bush White House is Barbara Bush as First Lady. As a woman of a certain age, I am awed by her self-confident acceptance of the life cycle. Not for Mrs. Bush the beauty salon coverup of her white hair, nor the anorexic embrace of the "can never be too rich or too thin" doctrine.

Of course it's a big help to advertisers and, therefore, to the media to have women fretting about their outer selves instead of their inner selves. What if that should change? How much less might be spent by consumers? Is it possible that Barbara Bush could pose a danger to the economy?

—Doris Willens, *New York Times*

Stock Up

The unexciting buy-and-hold method of picking stocks may turn out to be the best approach for an uncertain time. In fact, the buy-and-hold method has done better historically than other financial approaches. Since 1925, for instance, stocks have risen at a compounded average rate of 10.03% annually. Bonds are up just 4.38%.

A dollar invested in mainstream common stocks in 1925 would be worth $404.98 today, according to Ibbotson Associates of Chicago. And a dollar invested in smaller, higher-risk stocks in 1925 would be worth $1,487.09 today. That same dollar invested in bonds back then would be worth only $14.78 today.

—John Crudele, *New York* magazine

Management has inside information that the stockholders don't have. I think management buyouts should be illegal, and if there is an outside buyout, the stockholders should get the benefits of the liquidation.

—Ben Stein, syndicated columnist, in *The Roaring '80s*, by Adam Smith

Cracker Jack

Each kilowatt hour I use in my home makes the power company's generator burn about 12 ounces—one Cracker Jack boxful—of coal. The TV burns one box every four hours. My halogen lamp at full tilt uses a box every two hours. Each air conditioner, one an hour. The clothes dryer, almost five an hour, which the power company notes is actually a Kleenex boxful.

I learn to think in terms of Cracker Jack boxes of coal by-products spewing into the air when I flick switches. Flick. A little acid rain. Flick. A little greenhouse gas.

—Penny Ward Moser, *Life*

* * *

Among the best conversations overheard at cocktail parties: That green house effect—a small price to pay for deodorant and hairspray.

—Jim Mullen in *Paper*

No to Car Keys

Communism doesn't really starve or execute that many people. Mostly it just bores them to death. Life behind the Iron Curtain is like living with your parents forever—literally in many cases. There are millions of do's and don'ts. It's a hassle getting the car keys.

—*Holidays in Hell*, by P.J. O'Rourke

Drawing: by Dana Fradon; ©1988 The New Yorker Magazine, Inc.

"It's true Caesar Rome is declining, but I expect it to pick up in the next quarter."

Ve counselled him on estate planning, his son on tax matters and taught his randdaughter about zero-coupon bonds. Then we gave them the afternoon off.

Multi-generational financial counselling is nothing new at U.S. Trust. We've been doing it for nearly seven generations. It may take place in our offices, our clients' homes, or at our Managing Wealth Seminars, where—as seen above—the activities are as enlightening as the education.

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How Does The CFO Of Porsche Stay Ahead Of The Competition?

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

1989 *SHOULD* BE A GOOD YEAR

The American economy has rarely been healthier, despite fierce and growing global competition. Investment here is booming. Technological innovations proliferate. Job creation continues. Profits are expanding. The smugness of a generation ago and the pessimism of a few years back have both given way to a spirited determination to innovate and compete effectively.

In 1989 interest rates should come down. Equities should go up. For all the problems we face in the financial system (particularly the continuing boil of S&Ls), the economy should expand. But . . .

Fred Dhai Sygma

Greenspan: faulty thinking imperils economy

The chief obstacles to an expanding economy are still with us: misdirected responses to the trade and budget deficits, a misguided Federal Reserve and Congress' penchant for backdoor social engineering such as mandatory health insurance, which would devastate small businesses.

If our economic health does deteriorate, it will be because of such gratuitous, self-inflicted wounds.

The most immediate menace to our economic health: the Federal Reserve.

The Fed still believes that prosperity causes inflation. New York Federal Reserve Bank President E. Gerald Corrigan says that the economy is not capable of growing beyond 2.5% without setting off a forest fire of higher prices. Alan Greenspan seems to agree. That's why the central bank looked with horror at last year's unexpectedly strong expansion and jacked-up interest rates. The Fed also seems to think the tightening will pressure Washington to "do something" about the budget deficit.

Counterproductive Reaction

What a misbegotten response. Higher interest rates increase the deficit because of the extra charges Uncle Sam pays to service the national debt. If rates went down to where they were in 1986, Washington would save more than $25 billion in interest expenses. Unless the Fed switches gears, a recession could result which would balloon the deficit. Interest is also a cost of doing business. So, in the name of fighting inflation and the deficit, Alan Greenspan increases both.

One of the curious questions future historians will have to answer about this era is why there was all the crying and wailing about the budget and trade deficits, not to mention the deep anxiety in supposedly learned quarters about America's place in the world.

Uncle Sam's money shortfalls can't be brushed aside, but we should not threaten the health of the economy through major tax increases in the name of getting rid of the deficit. The overall budget deficit (federal, state and local) in this country is proportionately the same as that of Germany today and ranks in the middle of the industrial nations. The national debt as a percent of the GNP is declining again. Federal receipts in real terms are growing at a very impressive pace.

If the Administration would defend the integrity of the dollar, and if Alan Greenspan would stop trying to slow up the economy with tighter money, the budget deficit would drop sharply—and painlessly—in the next 24 months. The potency of economic growth and lower interest rates in reducing Washington's red ink is underestimated.

Powerful—and Getting More So

The trade deficit is not a moral equivalent of a company losing money. It is, on the contrary, a result of our strength. The bulk of the growth in imports in recent years has not been cameras and VCRs but investment-oriented items such as parts and machine tools. In restructuring our economy during the 1980s, we have mobilized not only our own capital but that of other nations as well. We are now investing more than $900 billion a year, one of the most underreported stories of recent times. We have been reshaping and rebuilding our economy in peacetime the way Europe and Japan resurrected theirs in the 1950s and 1960s from the ruins of war. This is a testimony to the U.S.' extraordinary resilience and vibrance and hardly a symptom of decline.

KING OF THE OXFORDS

Sounds a bit brash, doesn't it?

But consider: in 1988, Lands' End offered Oxford dress shirts in 42 styles. In 100% cotton and blends thereof. In solids, stripes, checks. For men, women, children.

Surely a royal performance.

Lands' End Oxfords. Why, even the initials spell LEO!

But before you get the impression that we built our reputation on selection alone, we better back up a little and tell you how we got into the Oxford business, and how much we've learned along the way about what's really important.

Namely, quality.

A little history.

What first suggested to us offering an Oxford shirt in our catalog was our own preference for the garment.

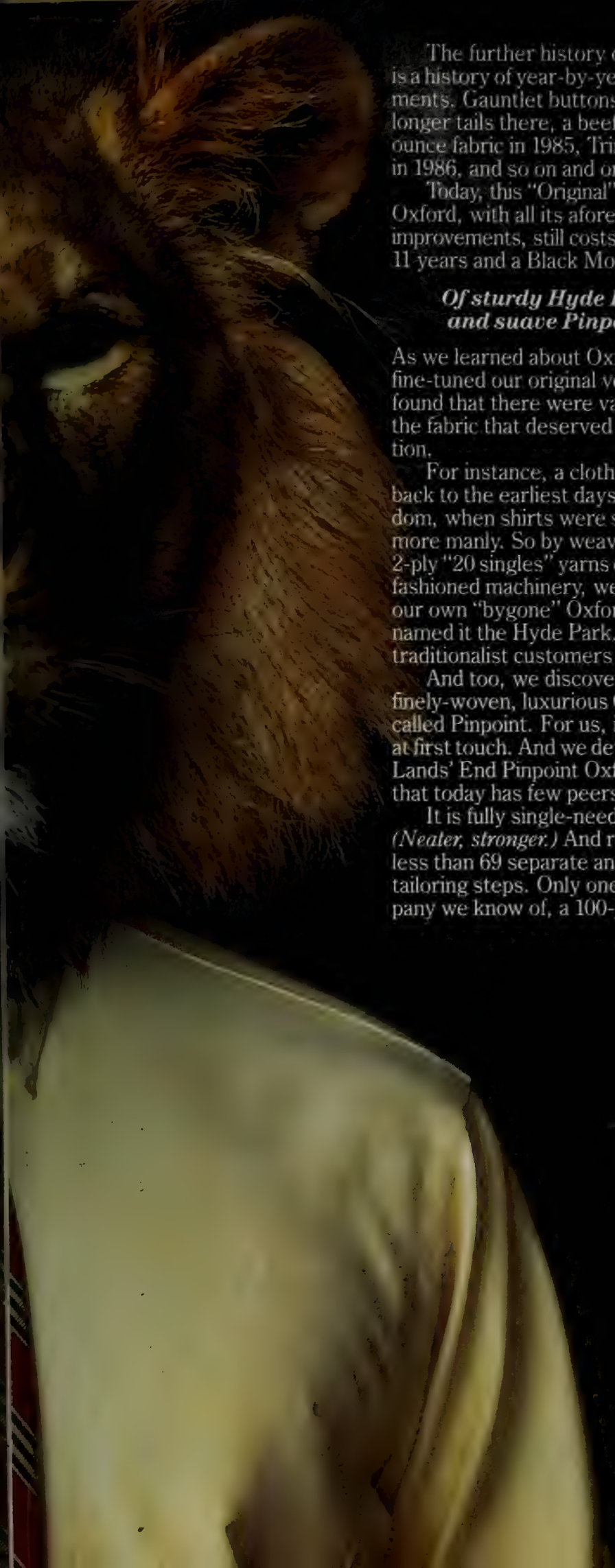
We had grown up in it, so to speak. Gone to school in it. Worn it to Senior Proms and college mixers, and certainly to early job interviews.

So we were a little surprised to find, when we got serious about offering our own version of it, that it enjoyed little presence except in the more exclusive men's specialty shops, where it wore a price tag that was positively unsettling.

So, in 1977, we entered the market boldly.

From the first, we commissioned our own source of supply, and specified a shirt of 100% pure cotton. *(This in a day when synthetics were all the rage.)* We further specified a generous cut, with long tails. And a 7-button *(not 6-button)* front placket.

Finally, we gave it a price that was a startling value. Just $14.50.



The further history of this shirt is a history of year-by-year improvements. Gauntlet buttons here, longer tails there, a beefier 4.2 ounce fabric in 1985, Trim Fit sizes in 1986, and so on and on.

Today, this "Original" Lands' End Oxford, with all its aforementioned improvements, still costs just $19.50, 11 years and a Black Monday later!

Of sturdy Hyde Parks, and suave Pinpoints.

As we learned about Oxfords, and fine-tuned our original version, we found that there were variations of the fabric that deserved our attention.

For instance, a cloth that harked back to the earliest days of Oxforddom, when shirts were sturdier, more manly. So by weaving beefy 2-ply "20 singles" yarns on slow, old-fashioned machinery, we developed our own "bygone" Oxford, and named it the Hyde Park. Our traditionalist customers loved it.

And too, we discovered a more finely-woven, luxurious Oxford cloth called Pinpoint. For us, it was love at first touch. And we developed our Lands' End Pinpoint Oxford, a shirt that today has few peers.

It is fully single-needle tailored. *(Neater, stronger.)* And requires no less than 69 separate and distinct tailoring steps. Only one other company we know of, a 100-year-old men's specialty shop, asks for even as many as 55. They charge $55 for their Pinpoint Oxford. Ours is $33.50.

Also worth noting is that we offer our "Original" and Pinpoint Oxfords in versions for women, complete with all the fine tailoring features found in our men's Oxfords. So there is no longer any excuse for "borrowing his."

King of the Oxfords. Not just because we sell more: we sell better.

Every customer a King at Lands' End.

Naturally, in our catalog, you'll also find everything to wear with your Oxford shirts—handsewn ties, flannel blazers and trousers—as well as much more casual clothing and soft luggage. All made with exceptional quality, at prices that represent rock-solid value.

But more than that, we offer a brand of service that will make you feel positively, well, regal.

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What more could you ask? Next time you're in the market for an Oxford shirt *(or several of them)*, call **1-800-356-4444** and ask for LEO.

The King. H-06

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Commentary

on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

This is not the first column I have written, but it is the first for Forbes, *a magazine I have read and greatly admired for many years. The first column I wrote, about 53 years ago, was for a small, now long-deceased San Francisco weekly called* The Argonaut. *Many others were written, nearly as long ago, for the* Harvard Crimson, *and then, somewhat more recently (meaning 28 years ago), I began dispatching about 700 words, twice a week, to some 20 to 30 California newspapers. That stopped in 1968 when then Governor Ronald Reagan appointed me Director of Finance of California.*

A long string of government and private sector positions followed, but the opportunity to return to my early love, writing and publishing, did not appear until Malcolm Forbes "suggested," with characteristic persuasive skills and persistence, that I should indeed resume these early pursuits. That, combined with the idea of writing for Forbes, *proved irresistible, and so here I begin.*

CAN WE TRUST THIS NICE MR. GORBACHEV?

Is it ungracious, churlish, unwarranted or any of the above to examine very carefully, perhaps even in the mouth, Mr. Gorbachev's most recent gift horse?

Possibly. But since much of the security of the U.S., and indeed the West, could depend on our attitude and response to the Gorbachev proposal, let us risk being all of the above.

The critical question with all arms reduction proposals is, What's left after all the proposed reductions have been made? If Mr. Gorbachev's rhetoric of reducing by 10,000 the number of Soviet tanks in Eastern Europe and in the European part of the U.S.S.R., and by 8,500 the Soviet artillery pieces in the same region were actually turned into fact, the Warsaw Pact, for example, would still have an advantage over NATO of some 25,000 tanks and 20,000 artillery pieces.

Since the proposal is really rhetoric in outline form, we do not know which tanks would be "given up." Presumably, they would be those closest to being obsolete. The manpower reductions are a bit more specific because the Soviet leader spoke of "withdrawing" nine tank divisions.

What is not clear is whether a division would be eliminated and the soldiers returned to civilian life, and whether the tanks would be destroyed or simply kept ready for a redeployment to Europe or elsewhere. However, since so many seem to have suspended the quality of disbelief with respect to Mr. Gorbachev's comments, let us assume that he meant what he said. At this point, we must remind ourselves of the great difficulties of verifying such reductions or any conventional reductions by the Soviets.

If, indeed, they did cheat, as they so often have in the past, what could we do? We must bear in mind that with the Soviets' closed system, where there is no public opinion, they can turn a farmer into a soldier overnight, and we would not know it for quite a time thereafter; nor can we add to our forces so quickly.

Thus the reduction of 500,000 troops could be canceled a day after it took effect in much the same way the Soviets have apparently unilaterally abandoned their agreement to withdraw all of their forces from Afghanistan by February. If they have not withdrawn from this agreement, they are carrying it out in a very peculiar way by putting more SCUD missiles and more capable military aircraft back into Afghanistan. At the U.N. Gorbachev said they would withdraw, but only if that body helps him with an international force of some kind. In short, a new condition.

Finally, and again assuming for the purposes of argument only that Mr. Gorbachev means to do all of the things he says, and does them, a very basic question and worry remains. Will he be allowed by the other elements of the Soviet leadership to remain in power? We must remember that Khrushchev, another General Secretary who visited New York, embarked upon many of these same reforms, and Khrushchev was dispossessed of power rather surgically, to accept the position of noncitizen.

Clearly the jury is still out on Mr. Gorbachev's intentions, or even his continuing power. In any event, we must not allow him to succeed in what I feel was one of his principal goals, and that is to persuade us that we no longer need to be strong, or our friends that NATO forces need no longer be strong.

My feeling has always been that if we rest our security on the answer to the question of whether we trust the General Secretary of the Communist Party of the Soviet Union, then we have already lost our security.

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Carol Lehigh
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Edited by Howard Banks

JAPAN IS INVESTING AT FULL BLAST

A lower yen now would hurt more than a stronger one

JAPANESE MANUFACTURERS NOW FEAR A LOWER YEN more than a stronger one, report economists at the Industrial Bank of Japan.

Surprise? Not really. Japanese companies have adjusted to the high yen by switching to products involving higher technology, or improved design, where price is less crucial to competitiveness.

Though the yen appreciates, they can lift export prices to compensate for weaker foreign currencies. Note, as evidence, that Japan's merchandise trade surplus with the U.S. in yen terms seems to have hit bottom.

A lower yen would hurt those Japanese manufacturers that have increasingly switched production of subassemblies and components to lower-cost Asian countries, by raising the cost of these supplies.

Some markets for lower-value goods are being conceded to lower-cost imports

CONVERSELY, JOINT GOVERNMENT-BUSINESS COMMITTEES (not omnipotent, but useful for creating Japanese-style consensus) conclude that by the early 1990s some products will be heavily imported into Japan. The sample below includes some surprises:

- Imports of basic steel products, such as hot-rolled steel sheet and coil used in auto manufacturing, will rise from 2% to over 30%.
- Some basic chemicals (ethylene dichloride, ethylene glycol, some acrylics) nearly 50% imports.
- Simple machinery (lathes, milling machines and sewing machines for apparel) will see imports double or more to over 40% of demand.
- Half of calculator demand will be met by imports.
- Small domestic electronics (black-and-white TVs, portable radios and cassette recorders) will go mostly to imports.
- Even 35mm cameras, a market Japan has long dominated, will see 50% imports.

U.S. industry must keep running just to stay abreast

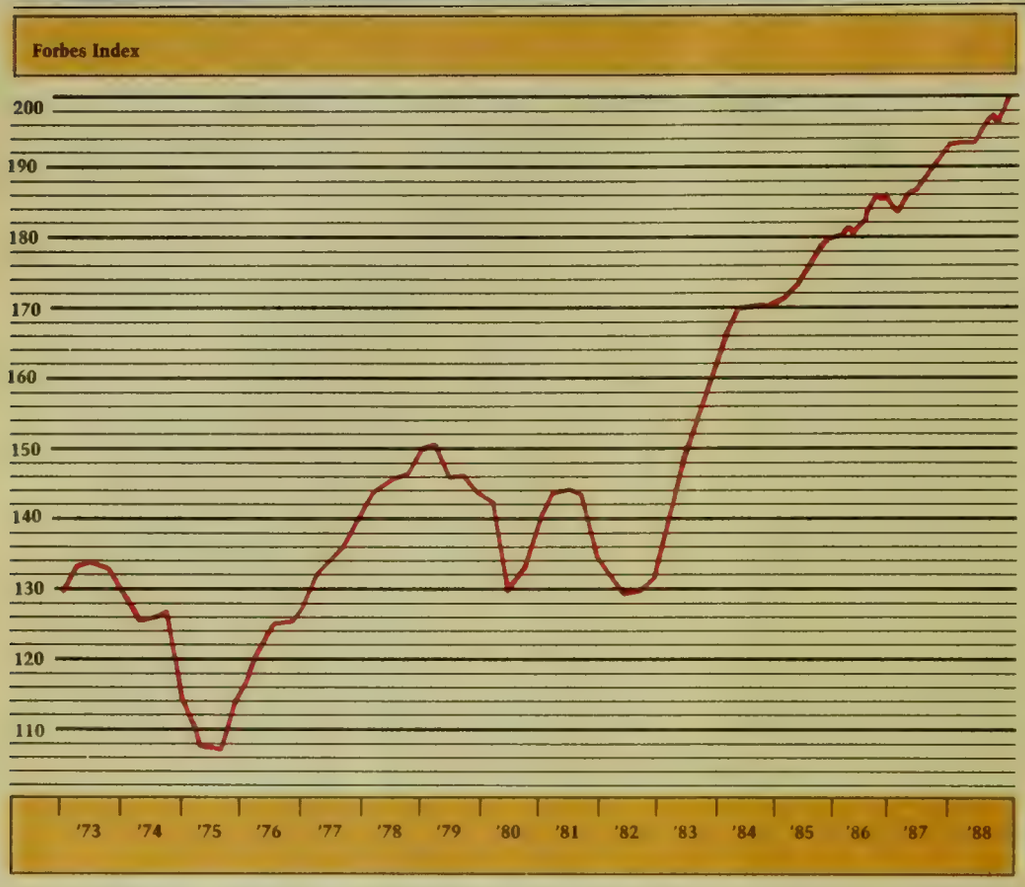
LOOK, TOO, AT WHERE JAPANESE COMPANIES are directing the expected 24% rise in capital investment in the 12 months ending March 1989, a level of spending that will be matched in the following 12 months, the IBJ believes.

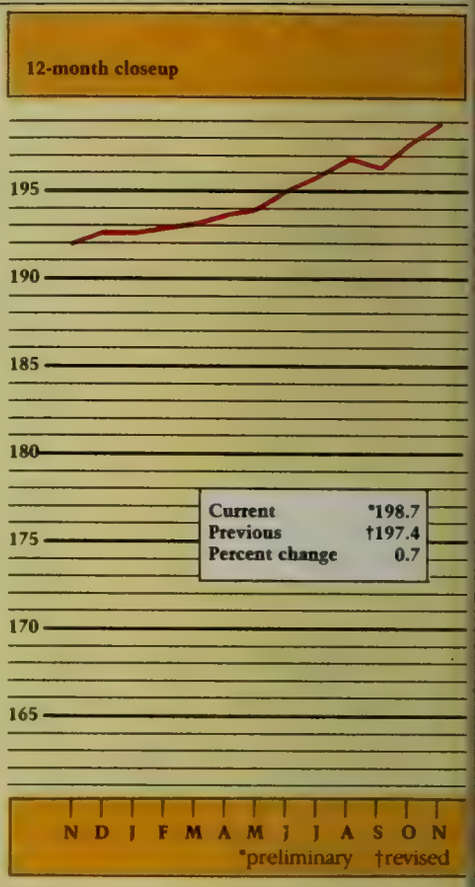
It's mostly in productivity improvements and cost-cutting, little in added capacity. Most is in areas like microchips and the machinery to make them (once a U.S.-dominated sector), in advanced ceramics, in special synthetic plastic films. Spending on research and development is expected to increase nearly 14% in the current 12 months and by a more modest amount in the coming fiscal year.

And Japanese business will continue to invest abroad—over 35% of manufacturers will have some production outside Japan by 1992, up from 28% today.

It all puts a cooling perspective on the good news about U.S. manufacturing's resurgent good health in this issue's 41st Forbes Annual Report on American Industry, starting on page 77. These days, U.S. industry has to keep running just to stay abreast.

The Forbes Index



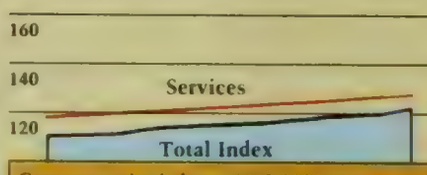


Crash? What crash? After a dull third quarter, retail sales jumped 1.6% in October and 1.1% in November. In the weeks following the Oct. 19, 1987 market crash, people curtailed their spending. The sales tally of $138 billion for this past November is 9.6% higher than it was in the previous year. If the recent buying spree extends to the last few days of the holiday shopping season, fourth-quarter retail sales will show a marked improvement over 1987 levels. One problem: Consumers are taking on more debt. Consumer installment credit expanded by 0.5% in October, to a record $657 billion, even though interest rates have increased and interest payments now have a less favorable tax treatment. Industrial production rose 0.4% in November, the 14th consecutive monthly gain.

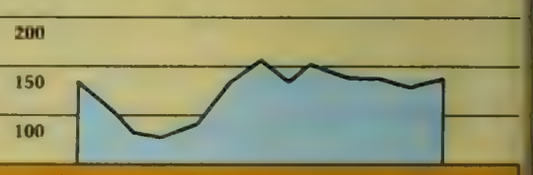
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

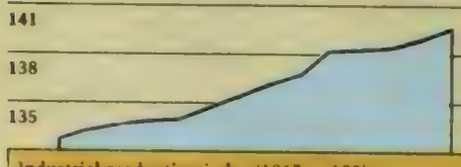
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right



Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)



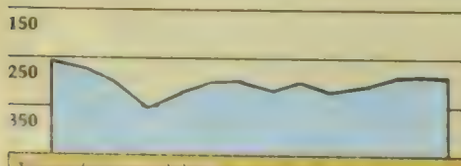
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



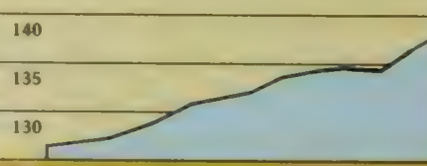
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month [illegible] seasonally adjusted (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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Ford TRUCKS

One of the godfathers of stock fraud is singing to the Feds. When it comes to lawbreaking, Ivan Boesky was an amateur compared with Arnold Kimmes.

Never, but never, give a sucker an even break

By Richard L. Stern, Matthew Schifrin and Claire Poole

LAST JULY French police swept down on Le Mas des Roses—"Farmhouse of the Roses"—a lovely, pink stucco villa overlooking the Mediterranean near Cannes. The gendarmes arrested the resident, New York-born Tommy Quinn. This 51-year-old convicted international stock swindler and disbarred Mafia lawyer (FORBES, *Sept. 23, 1985*) was living high on the hog, but now he molders in the dank and nasty confines of Paris' Prison de la Santé, where prisoners, it is said, are packed six or seven to the cell. Without hope of bail, Quinn awaits trial on charges of securities fraud—what the French call "aggravated fraud." Minimum sentence, if convicted: perhaps ten years.

Good-bye, Farmhouse of the Roses.

Quinn's longtime associate, Arnold Kimmes, 68, nicknamed Charlie, was a lot luckier. Charlie Kimmes was on his yacht that sunny day, and when the gendarmes came to call, Kimmes slipped away. He then returned to the U.S. Kimmes apparently decided he would rather take his chances with the U.S.' permissive system of justice than with the far tougher French system. After all, insider-trading criminal Ivan Boesky got off fairly lightly, reportedly gaining time to squirrel away healthy chunks of his wealth before waltzing off to a country club prison in Lompoc, Calif.

Kimmes' sudden return home was certainly a bit of luck for the federal authorities. FORBES has learned that Kimmes is singing and, like Boesky, he appears to be turning state's evidence against former colleagues. Some of what he is saying is contained in a 600-page affidavit filed in Denver by the Internal Revenue Service as part of a tax evasion probe.

Among the former associates already fingered by Kimmes is the notorious Meyer Blinder of Blinder, Robinson & Co.—"Blind 'em and rob 'em" (FORBES, *Apr. 20,*

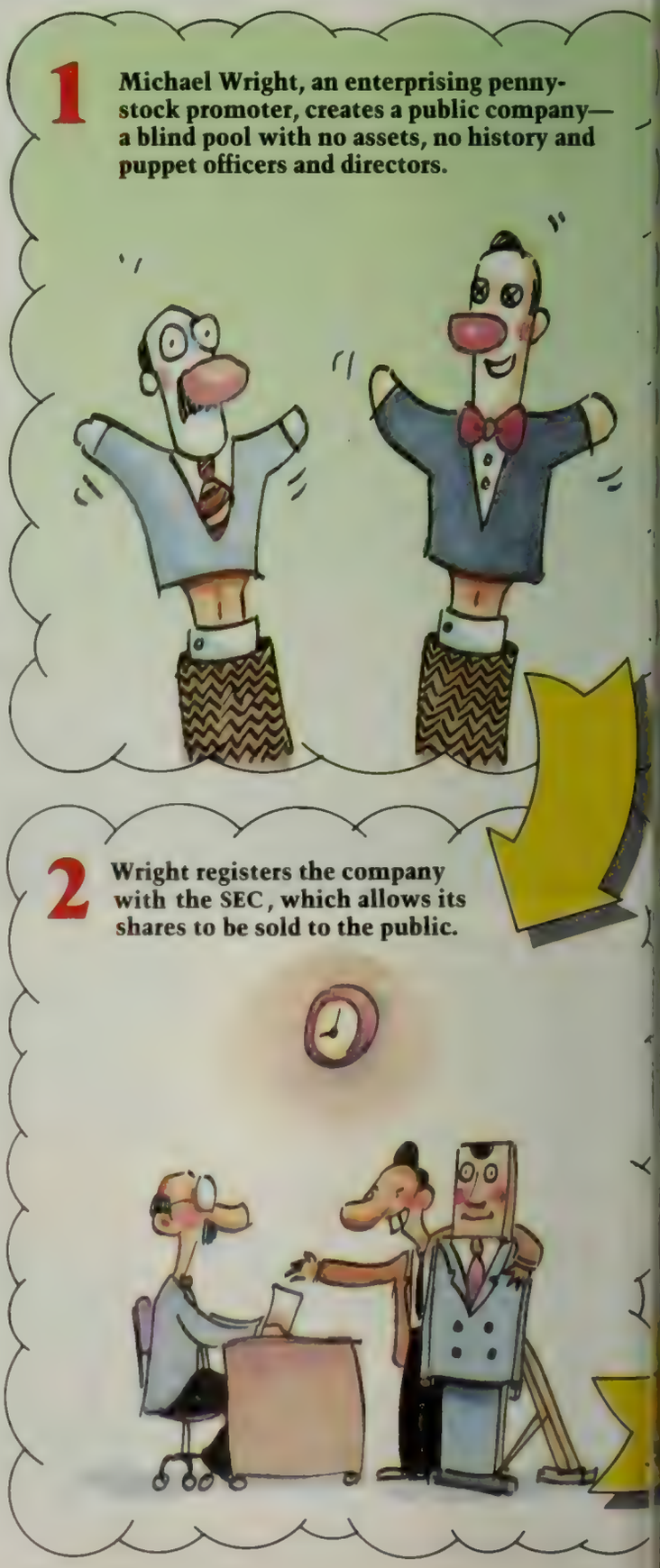
Phony stock, real money

To make a lot of money selling stock in phony public companies—and keep the IRS' hands off the proceeds—just follow these two simple rules:

1. Create a paper trail to make it appear there is legitimate trading in the issue.

2. Create a mechanism for laundering the money abroad.

Here's how one setup worked.



6 Many of the accounts controlled by Kimmes are in the names of foreign nationals not subject to U.S. taxes. Kimmes sends those proceeds—Federal Express is one method—to an agent in Switzerland for laundering and safekeeping.

5 The shares are bought, at previously arranged prices, by Meyer Blinder for his firm, Blinder, Robinson & Co. Based in Colorado but with powerful retail reach nationwide, the firm marks up the price of the shares and sells them to small, naive investors. The proceeds flow back to Blinder and to the accounts controlled by Kimmes.

3 The company does a "self-underwriting"—sells shares to puppet investors as an initial public offering. It thereby seasons the offering but keeps the shares under the promoters' control.

4 After a time, in sham transactions, the shares are moved into brokerage accounts at firms controlled by, or friendly to, Michael Wright and his mastermind, Arnold Kimmes. A record of bid-and-asked prices is established in the over-the-counter pink sheets, although there is virtually no actual trading.

Illustrations by Patrick McDonnell

1987). Apparently, with Kimmes' statements, Internal Revenue was able to obtain search warrants for Blinder's sumptuous offices in Englewood, Colo. (As a by-product of the search, authorities removed a slot machine and a craps table from Blinder's office, which appropriately had an air of a casino rather than a brokerage house.)

As defiant as ever, Meyer Blinder had this to say about Kimmes' damaging statement: "I met the man one time for 15 minutes and the goddamn guy is a liar. The man is a two-time loser, made a deal with the government so they wouldn't put him back in jail and made allegations against me. The allegations are completely untrue, and I will prove them in the court room. The only money I washed is I forgot a $10 bill in one of my suits when it went to the dry cleaner, and it got laundered.

"The gestapo, when they come to your house, remember, I told you they will. It all started in Germany, baby."

Emerging from Kimmes' statements is information linking his operation to a worldwide ring of stock frauds, involving a loosely connected network of 250 bucket shops disguised as brokerage houses that have taken at least 100,000 investors for up to $1 billion in dozens of countries and perhaps at least as much again in the U.S.

It's strange. The investing public is staying away from legitimate stocks but is showing a seemingly endless appetite for worthless securities.

FORBES was able to put together aspects of this epidemic of fraud through information gathered piecemeal from law enforcement authorities, victims and some insiders around the world, as well as from thousands of pages of documents, including Kimmes' interview with the Internal Revenue Service.

Here's a small but fairly typical example of Kimmes' version of how the crooks separate people from their investment money:

The stock was called Ventures National, listed here in the so-called pink sheets of thinly traded over-the-counter stocks. The company was born in the Salt Lake City garage-office of Kimmes' partner Michael Wright. Ventures National was a blind pool. A blind pool is nothing more than a shell corporation, which may or may not have cash in it. Since it has no business, it need say little in the prospectus about what management plans on doing with any money it raises, merely something like: "Management intends to acquire companies."

Wright specialized in creating blind pools, hiring lawyers and accountants and getting the pool registered with the Securities & Exchange Commission. According to the prospectus, Ventures' principal shareholders and officers were President John Peterson, a 24-year-old former shoe store manager from Salt Lake City, his sister and his brother-in-law.

If Ventures was a typical case, however, Peterson and the others were simply lending their names in return for a few thousand dollars. The real principals? Arnold Kimmes and Wright.

Ventures proceeded to offer units consisting of shares and warrants-to-buy shares. It was "self-underwriting," meaning it was brought public by the company itself without a broker as an underwriter. After the offering, Ventures would have 30 million shares outstanding and warrants for another 120 million shares.

To whom was this vast number of shares sold? To Kimmes and Wright—but not directly. Kimmes and Wright set up nominees—other people's names—and registered the Ventures securities in these names. The money to pay for the shares came from where? Presumably from Kimmes. After the public offering Ventures National had $270,000 in cash. Exit Michael Wright, center stage Kimmes.

Kimmes' next step: create the illusion of a public market. Kimmes arranges the sale of shares from the nominees of the initial public offering to nominee accounts in actual brokerage firms. Although he is apparently the real owner his name does not appear on the transfer books; the accounts are held in the names of people willing to front for Kimmes. One of the principal brokerage firms involved was Chelsea Securities, situated—you guessed it—in boiler room paradise Newport Beach, Calif. According to the affidavits, Chelsea was chiefly funded by Kimmes, Wright and Tommy Quinn.

With the stock seemingly widely distributed, it was time to establish a "public market" for the shares. Kimmes typically would arrange for the shares to be listed in the pink sheets. The pink sheets are daily reports issued by the National Quotation Bureau covering transactions in thinly traded stocks. The pink sheet listing created the illusion of a legitimate stock with a legitimate market.

Out, out, damned spots

Last October the Luxembourg-based Bank of Credit & Commerce International and nine of its officers were indicted for laundering $14 million in drug money. It now turns out that BCCI was also patronized by Arnold Kimmes and Tommy Quinn.

Swiss authorities say Quinn and Kimmes used BCCI branches in Cannes, Monte Carlo, Luxembourg and Marbella, Spain. Here's how it worked, according to federal search warrant affidavits: Kimmes used a money laundry run by a 42-year-old Dutchman, Robert Doorn, according to Swiss and U.S. authorities, who say Doorn has done a lot of work for drugs and arms traffickers. His typical fee is 10% of the money cleaned up.

Doorn is a clever fellow. He set up for his clients Panamanian-registered companies that he controlled out of Switzerland. One was Kimmes' Panagony Corp.

Kimmes used companies like Panagony Corp. to hold the shares of blind pools. When a blind pool's stock was sold to a brokerage (Blinder, Robinson, say), a check went from Blinder to the brokerage firm holding the Panagony account. The firm sent a check made out to Panagony to Kimmes, who then sent the check to Doorn for deposit in a Swiss bank account. When Kimmes needed money, Doorn drew cash from the Panagony accounts, then deposited it in yet another bank. The second bank was instructed to wire the funds to a U.S. bank with instructions to issue cash—say $100,000 in $100 bills—to a European citizen to be identified by his passport.

Doorn then sent a European courier to the U.S. bank, who picked up the cash and delivered it to Kimmes. As a non-U.S. citizen, the courier could circumvent IRS reporting requirements. Complicated and expensive, but cheaper than paying taxes. The money made a round trip, leaving the U.S. tainted and coming back tax free and as pure as the driven snow.—**R.L.S. and C.P.**

So far, Kimmes hasn't made a dime. But his killing is not far off. On Aug. 13 and 14, 1986, eight months after the supposed initial public offering, Chelsea Securities sold 90 million shares of Ventures to Blinder. The price: $1.8 million, at prices ranging from 1 cent to 2½ cents per share. Presumably, the other 60 million shares' worth of unexercised warrants were sold as part of the package. In the slang of the stock underworld, such a completely packaged company is known as "stox in a box."

Now Kimmes is out. He received at least $1.8 million for his blind pool company. (Actually he received more than $1.8 million, because there were additional purchases of Ventures stock by Blinder, Robinson from other brokerage firms.) Kimmes is happy as can be and Blinder has the merchandise he needs to pass off on the public.

Arnold Kimmes in 1970
Fingered Blinder.

Now the deal is ready for the suckers. The bait is in place, the trap is set. And according to Kimmes, Meyer Blinder is the man who springs the trap.

Within a few days of buying the stock, Blinder brokers—he had some 1,700 of them in 82 offices—were working the telephones. According to Blinder research reports, the salespeople apparently told clients that Ventures would soon merge with a Florida-based military contractor that had a fantastic new product, AM/FM stereo hats. Radio hats? That was the pitch. People would wear radios on their heads, like hats.

The merger was real enough. Ventures' old "officers" from Kimmes' time disappeared. The new major shareholders included an entity listed in the 10-K as "Blinder Robinson Jr.," shown as owning 10% of the now 590 million shares outstanding.

Four days after Blinder bought the stock from Kimmes, it was moved out at 4 cents a share—roughly three times what it cost Blinder. By the end of 1986, it was at 6¼ cents a share.

In Kimmes' scenario, Blinder clearly made millions. The public shareholders? By the end of 1987 the Ventures shares were trading at less than 2 cents—and probably not worth it—and the stereo hat business lost $445,000. But like Kimmes and Wright before him, Meyer Blinder was smiling all the way to the bank.

Back for a moment to Charlie Kimmes. He had a problem. He made a healthy profit selling shares to Blinder on the Ventures deal. He certainly didn't want to give up his profits to Internal Revenue. That was why he'd arranged that the shares were in other people's names, mostly Europeans, to avoid U.S. taxes. But Kimmes was the real owner. Without endorsing the checks for the proceeds in his own name, Kimmes sends the proceeds to Switzerland. The Swiss end is handled by a fellow named Robert Doorn, reputedly one of the world's best money launderers. Doorn takes 10% for his pains. How does Kimmes get at the money when he wants it? *See box, opposite*) Meanwhile, let's get on with the stock swindle story.

Barn Staver

Meyer Blinder
"The guy is a liar."

The pattern is clear: Think of Kimmes as a manufacturer of stocks and people like Blinder as the retailers. Kimmes would invent companies, register them with the Securities & Exchange Commission and then arrange to sell wholesale blocks of the stock to Blinder. Blinder's highly compensated salespeople would then unload the worthless stuff on the public at a huge markup. Ventures National was only 1 of 16 blind pools* that Kimmes claims he and Wright manufactured and sold in this manner to Blinder.

Another Kimmes-manufactured blind pool, Executive Capital, went public in October 1986. A year later, after winding its way through the Blinder retail system, it merges with a harness-racing stud farm. New owners? Blinder, his wife and cronies. Another, Humboldt Financial, eventually merges with metals manufacturer Continental Connector, owned by Blinder and his brother, Morris.

What does Blinder gain by the mergers? Control of public companies and whatever stockholder capital they have in them.

Where did Tommy Quinn come in? He has teamed up with Kimmes for years. In 1985 Quinn and Neal Bruckman, another stock scamster, introduced Kimmes to Blinder through Blinder's brother, Morris. For the introduction, Kimmes says he agreed to give Quinn and Bruckman 50% of the profits derived from manufacturing worthless companies for Blinder's retail operation. And Kimmes says Morris was given a 5% commission.

Why did they cut Quinn in? Remember, Quinn and Kimmes were longtime partners, and Kimmes was not just manufacturing companies for Blinder, he was also creating blind pools for his and Quinn's European-based retail operations. Using captive brokerage names like Kettler Investment and Equity Management Services, the Quinn-Kimmes Europe-based salespeople used long-distance phoning to extend their own operations throughout the world.

Now the scamsters were operating on a worldwide basis, selling blind pools. Why blind pools? Because blind pools involve little in the way of disclosure. Blind pools are perfectly legal in the U.S. Some are legitimate investments promoted by reputable firms looking for genuine venture capital opportunities. But many serve no other purpose than to raise money from the public, which the sponsors can subsequently drain off.

There has been a rash of blind pools registered with the Securities & Exchange Commission in recent years. Anxious to facilitate the raising of money for new ventures, the SEC has made registration faster and easier. Unfortunately, this speeding up has played into the hands of crooks. FORBES has identified at least 40 of the 360 or so blind pools registered with the SEC since 1985 as related in some way to Kimmes and Quinn.

Why would Blinder and the other boiler room operators need Kimmes to create blind pools? Why not just register the blind pools himself? First off, things have gotten pretty hot for Blinder, Robinson these days. The firm is being investigated by the SEC as well as by numerous state securities administrators, and hardly needs any additional attention from the cops. Second, by purchasing shares in these blind pools from someone else, Blinder escapes many federal disclosure requirements and ownership restrictions that would make his operation

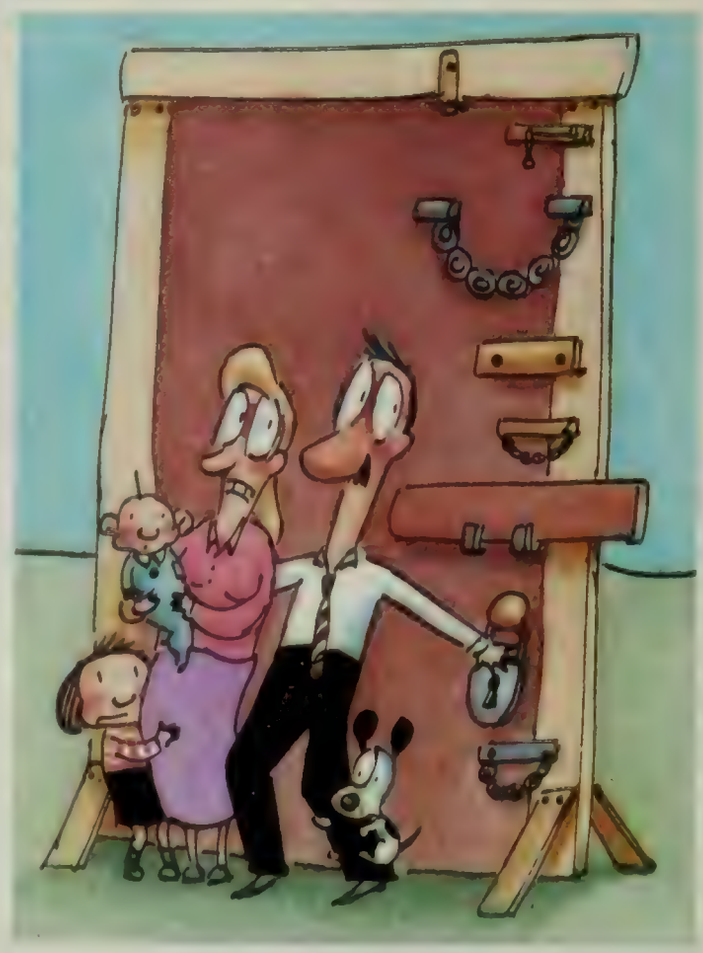
**The 14 others (and one unnamed): CDT Ventures; Crown National Ventures; Deseret-Western Venture Capital; Executive Capital; First Colonial Ventures; Hood Ventures; Humboldt Financial; Ivory Venture Capital; Kiwi Ventures; Linc, Ltd; Onnix; SBB; Tone Ventures; Yellow Line Capital.*

more difficult and far less profitable.

Blinder's operation, in any case, has also been seemingly invulnerable. It has managed to continue running despite every charge the authorities have thrown at him. (Things may have changed, however, with the recent Internal Revenue Service four-day search of Blinder's plush Englewood, Colo. headquarters in November.)

Blinder wasn't the only one fingered by Kimmes. Law enforcement officials say that Kimmes has implicated many other boiler rooms, plus employees of otherwise legitimate brokerage houses who helped manipulate the prices of dozens of stocks in the U.S. over-the-counter market. Will there be arrests? Or more raids? The Feds won't say.

Like the Hindu pantheon of gods, where the faces are many but the underlying spirit one, the global stock fraud business shows hundreds of names but the same disreputable characters keep turning up again and again. And if the authorities make it hot for one operator, another one soon steps into his place.



In part because of pressure from the regulators, Blinder, Robinson & Co, once king of the penny stock firms, is shrinking. It has closed several offices and is trying to sell office equipment and furniture. Jay Goldberg has left the firm. He was Blinder's training director, the sales wiz who helped Blinder perfect the old "three call system"—(two calls to set up the customer's lust for bigger bucks; the third call to nail them with the stock pitch). Interestingly, Goldberg was earlier a top man at the now defunct First Jersey.

But if Blinder is shrinking, other similar outfits are springing up. Jay Goldberg is now with Investors Center, an up-and-coming penny stock outfit based in Hauppauge, N.Y. Investors Center reports some $1.4 million in capital, 850 brokers, and some 25 branch offices in eight states. The firm's president, Brooklyn-born Anthony Stoisich, started the firm five years ago with $40,000 in capital. He is a high school dropout who ran a fish market before he got into penny stocks. According to brokers, today he rides to work in a limousine from his home in Islip, N.Y.

Investors Center's product? Sani-Tech Industries, marketer of sanitary toilet seats and Arnex Investments, franchiser of Party Harty party stores. Investors Center, as you might expect, is also in the blind pool game. At least two blind pools peddled by the firm are controlled by a Westchester lawyer named Michael Duban. Duban is a man of many hats. Besides being a blind pool owner, and appearing on lots of other Investors Center's new shares' prospectuses because he is the firm's legal counsel, he is Investors Center's controlling stockholder.

The names change but the game doesn't. Consider Power Securities, based in Las Vegas, one of the newest, largest and certainly fastest growing blind pool and penny stock merchants now going. Power uses the same cold call, high pressure, sales techniques Blinder and its ilk perfected, according to former Power salesmen. At least three state and the NASD have investigated this outfit for a variety o irregularities.

In early 1987 Richard Marchese, 29, Power's owner, who after dabbling in everything from construction to the vend ing machine business, built the firm with $200,000 in capita and 12 brokers in Rochester, N.Y. Today Power has abou 1,300 brokers, $1.1 million in net capital and is registered t trade stocks in some 40 states. Recently it held its annua Christmas Party for its brokers at the Las Vegas Hilton.

The Power network markets stocks—some blin pools—that other firms have brought public. Power ha also been pushing the stock of a moneylosing compan named Star Publications, one of whose new products thes days is a collapsible, disposable razor. Recent market capi talization: $60 million, while revenues for the nin months ending last April were a stunningly limp $2,500.

Remember, too, the infamous Robert Brennan and Firs Jersey (FORBES, *July 16, 1984* Two years ago Brennan sol many of his offices to She wood Group. But some of th top First Jersey players re mained at Sherwood, pushin some of First Jersey's dubiou old wares, Pubco, Electrome dics and Medivix, for instance

When Sherwood started los ing money after the Octobe 1987 crash, it sold some c those former First Jersey of fices to Hibbard Brown and publicly traded brokerag house, F.N. Wolf. Turns ou that F.N. Wolf is partly owne by former First Jersey top exec utive John Dell. Hibbar Brown? One shareholder is man named George Stamos He owned a piece of First Je sey from 1974 to 1976. An Stamos' new $6 million in vestment in Hibbard is actua ly a loan from Bob Brennar Hibbard also makes market in old First Jersey stocks, in cluding a number of Brenna favorites: International Tho oughbred Breeders and Che International.

From Kimmes' statements and other evidence, it begin to appear that organized crime is in the stock scam bus ness. Quinn and Kimmes are both well known in mo circles. A 1978 California Crime Commission repo linked Kimmes to organized crime. And Quinn has bee linked to New York's Genovese crime family.

In Spain, France, Switzerland, Ireland, Great Britain an Germany, boiler shops linked directly and indirectly t Kimmes and Quinn have already been raided and shu tered by the police. But in the U.S., justice moves slowl By conservative estimate, more than 100 boiler rooms a operating in the U.S. alone as 1989 begins. But SEC Chai man David Ruder now says that closing boiler rooms wi be a top priority. A hopeful sign: The Justice Departme and the IRS are now getting interested in doing somethin about this naked plundering of the American people.

Stocks frauds will never be entirely eliminated, b there is no reason the public should be subject to epiden ics like the present one. ■

If you read about the recent IBM/Siemens deal, you may be under the impression that IBM is getting out of communications. Truth is, it isn't, it won't and it can't.

Telecomputing lives

By Gary Slutsker and Fleming Meeks

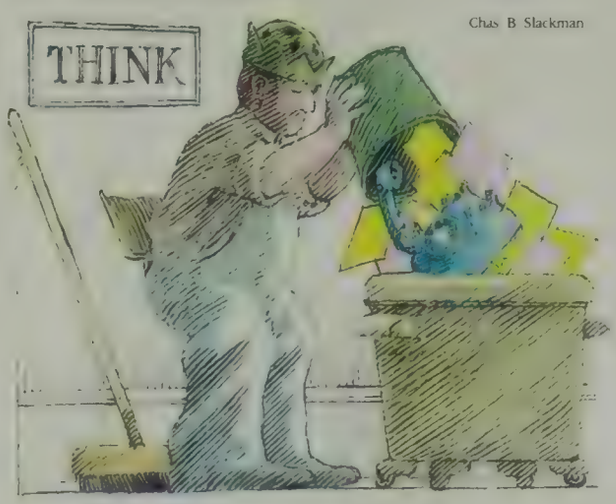
At Metropolitan Life's communications control center in Greenville, S.C., 11 operators stare at computer screens monitoring data transmissions from 12,000 claims processing terminals around the country. When a critical telephone line starts to degrade, an alarm sounds, letting the operator reroute the communications before more claims are lost. The control center, including two mainframes and software, comes from IBM.

If you read IBM's sale/joint-venture announcement with Siemens, involving IBM's stake in ROLM, the maker of telephone switchgear, you probably came away with the notion that IBM is exiting the telecommunications business, that the merger of computers and phones was a flop.

Not so. Missed in the stories about IBM's problems with ROLM is this important fact: Computer companies aren't just selling computers these days, they're selling networks of computers. Thus Apple Computer declared 1988 the "Year of Networking & Communications." As the Sun Microsystems' ads proclaim, "The network IS the computer."

Not counting ROLM's PBX sales, telecommunications accounted for about $1 billion in revenues for IBM in 1988. That's only a drop in a $58 billion bucket, but some of these markets are growing rapidly. Take local area networks. When it bought ROLM in 1984, IBM was betting that a good deal of data within companies would be carried alongside voice signals on phone lines and would be switched through PBXs. Instead, that task has fallen to local area networks, a $3 billion business last year that is growing at 35% a year. Now IBM is number two, with 14.5% of the market. By next year, analysts predict, it will outstrip market leader 3Com Corp.

IBM is not on the trailing edge. In November it unveiled a local area network using one of its own new chips that transmits data at 16 million bits a second, four times as fast as existing networks. IBM is also in the forefront of the next generation of local networks, which will use fiber optics to send 100 million bits a second. Such networks will mix voice, video, graphic images and data by the mid-1990s. You'll be having a face-to-face meeting with someone three floors away, and pointing out columns in a spreadsheet that shows on screens in both offices.



Chas B Slackman

How would all this information be switched in a company's network? Most likely with a "front-end communications processor," a specialized computer that switches data between mainframes and terminals. IBM has more than half the $1.2 billion market for these switches.

Telecommunications, once a sideline, is moving to center stage. Almost three years ago IBM had less than 2% of the worldwide market for modems, which permit computers to communicate over phone lines. Today IBM has roughly 7% of this $1.5 billion market, behind Motorola, AT&T and Britain's Racal. "Competitors are responding to what IBM is doing," says Richard Villars, senior analyst at Framingham, Mass.' International Data Corp. "You never saw that before."

If IBM doesn't come up with new ways to give its customers the kinds of open networks they are demanding, it will become vulnerable to competitors who will. Therefore, IBM is trying everything it can think of to keep control over its customers' networks, mostly with better software and service. Its NetView network management software lets a company monitor every link in a private network, from a faulty modem to a damaged fiber-optic line.

Of IBM's 100 largest customers, 96 use NetView. If something goes wrong on a customer's private voice or data network, IBM will fix it, or make sure the phone company does. NetView itself is not yet a significant revenue contributor, but because the program is so widely accepted, it gives IBM an edge over competitors like Digital Equipment, AT&T and Hewlett-Packard.

Then what happened with ROLM, bought in 1984 by IBM for an estimated $1.5 billion? It turned out to be just one of those dead ends that companies follow when they don't want to overlook any major possibility. It was a failed gamble, but not necessarily a futile one. ROLM engineers couldn't deliver a successful European PBX. Now Siemens will be taking over ROLM factories in the U.S., while IBM's salesmen will start selling Siemens PBXs in Europe.

ROLM was not the first example of IBM exploring a path, then abandoning it. IBM sank over $1 billion in Satellite Business Systems, a joint venture with Comsat and Aetna that would bypass AT&T by letting big computer users set up their own satellite networks. IBM traded away its Satellite Business stake for stock in MCI, then sold the MCI for cash and preferred worth maybe $600 million.

ROLM was a mistake. But neither IBM nor its competitors can afford to ignore the busy intersection of computers and communications. ■

Reuben Cohen and Leonard Ellen are big names on the Canadian financial scene but scarcely known here. But that's going to change. Just ask the people at U.S. Trust.

Canadian imperialism

Canadian moneymen Reuben Cohen (left) *and Leonard Ellen*
Don't let the dotty Bartles & Jaymes act fool you.

Lorraine Parow/First Light

By Jack Willoughby

With assets of $2.7 billion, U.S. Trust Co. isn't big as banks go, but it is immensely prestigious and highly profitable, a bank for wealthy individuals who want special service and attention.

Enter a couple of well-heeled Canadian dealsters who seem to think U.S. Trust might make a nice addition to the $14 billion worth of assets they already control. Just short of 10% of U.S. Trust's 10 million shares have been accumulated by Leonard Ellen, 64, of Montreal and his partner, real estate lawyer Reuben Cohen, 68, of Moncton, N.B. Both sons of Russian immigrants to Canada, Cohen and Ellen already control such major Canadian financial institutions as MICC Investments, Traders Group and United Financial Management through their Central Capital Corp.

Starting from almost nothing 40-odd years ago, the partners have accumulated one company after another, usually starting with a small stake and then leisurely moving for control. Along the way they have enjoyed thumbing their noses at Canada's stuffy business establishment.

Although now powerhouses in Canada, Ellen and Cohen have no significant holdings in this country. U.S. Trust would not only bring them into the U.S., it would give them a flagship of great prestige. And profitable: With a 1.6% return on assets in 1988 and a five-year compound return on equity of over 20%, U.S. Trust is the envy of the banking world.

What does the bank's management make of its new shareholders? Chairman Daniel Davison won't talk for the record. The bank will only say that its conversations with Ellen and Cohen have been friendly. W.Z. (Bud) Estey, vice chairman of Ellen and Cohen's Central Capital, puts it somewhat differently: "We've had plenty of talks with U.S. Trust. I don't think they know what to make of us. They've never heard of us before and they don't think they're going to hear from us again."

Ellen and Cohen have already taken a decisive step to move beyond Canada. Last year they bought one of Britain's oldest and biggest money managers, Capel-Cure Myers, which has some $3 billion of client funds under management.

In their business dealings, Cohen and Ellen sometimes come off as Canadian versions of Bartles & Jaymes. They have worked together so long that they often finish each other's sentences. But don't let the act fool you. Though the two have been operating as partners for a full 40 years with no signed contract or agreement, there's plenty of big-city toughness behind the country-boy image.

Beginning in the economically depressed maritime provinces after World War II, the partners put together a web of firms that range from insurance to banking, from money management to venture capital. In 1986 the two made their most deft move yet by buying Mortgage Insurance Corp. of Canada, the country's only private mortgage insurer.

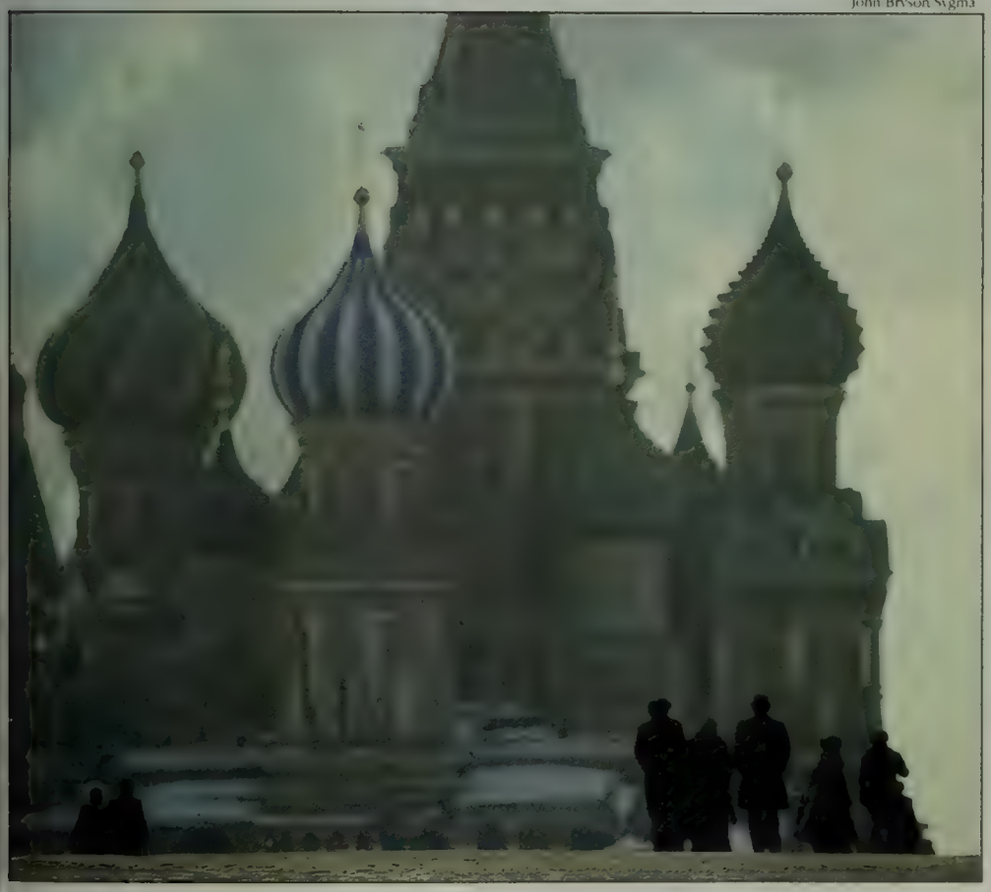
Taking over U.S. Trust would not be easy for the partners. Their combined net worth is somewhere around $200 million; at a 50% premium to market, a U.S. Trust takeover would cost $550 million and would likely add considerably to the $480 million in goodwill already on Central Capital's books. The most plausible outcome is that they will sit with their stock and patiently accumulate more, on weakness. Dramatic takeover bids aren't their style, but neither are fast in-and-out raids. ■

As the dimensions of Soviet economic failure become clearer, a strange fact emerges: Here is a Third World economy that nevertheless has been made into a superpower.

Empire of the will

St. Basil's Cathedral in Moscow's Red Square
Gray skies, black markets, iron will.

John Bryson/Sygma



By Peter Brimelow

It is easier to understand the severity of the crisis that has pushed Mikhail Gorbachev into attempting a highly risky reform program when you actually visit the Soviet Union.

Snow and gloom were absolutely all-pervasive during the ten days a group of Western academics and journalists spent in the Soviet Union recently, on a tour organized by the Washington-based World Media Association. The sun didn't emerge until our train crossed the border into Finland. A coincidence, no doubt—and, after all, Moscow is on the same latitude as Hudson Bay and the Alaska Panhandle. But what surprised me, as a financial reporter and a first-time visitor, was the extent to which the gloom penetrated Soviet shops.

A stark truth confronts even the traveler restricted to the Potemkin cities of the tourist route: Successful space missions and nuclear weapons notwithstanding, the Soviet Union is really a Third World country.

Its endemic shambles and scarcity constantly infiltrate the international hotels, fortresses of relative civilization erected, as is typical throughout the Third World, by foreign mercenaries such as Finns and even Poles, and firmly guarded by doormen to prevent ordinary citizens from entering. Lights and bathroom fixtures don't work, and shower curtains and bath plugs go missing, as indeed do room reservations themselves. This is not a modern industrial society as we understand it in the West.

But you have to forage through the streets like a Soviet consumer, preferably under the guidance of an experienced shopper, to realize the full story. There is simply nothing to buy. The big GUM department store in Leningrad has the sparse and scruffy look of a church bazaar in a poor parish, except that the assistants are unsmiling. Food shops that might appear full at a casual glance from inside a diplomatic limousine actually contain nothing but three different varieties of canned squid. In the main street of Kiev, capital of the Ukraine, more than 100 people jostle in an eager line to buy an allotment of—four cartons of soap powder.

Informal contacts told us that Soviet living conditions have actually deteriorated in the last two years. And economic strain is visible in the exchange rate. The Soviets do not allow the import or export of their currency, and visitors are supposed to buy it at the official rate of $1.60 to the ruble. However, the black marketers who materialize whenever a tour bus stops—and in hotel corridors, and even in Red Square itself—are offering to buy dollars for 5 or 6 rubles each, up sharply from last year's reported rate of 4 to the dollar. Our record bid: 9.

Which suggests that the market now thinks the ruble is worth a mere 11 cents to 20 cents, and falling. (And in fact the Soviets announced in December that in 1990 they propose to halve the official exchange rate—even then leaving the ruble at 80 cents.)

But what does it suggest about the Soviet gross national product—how big, really, is the Soviet colossus?

Admittedly, we only caught glimpses of the military economy—we flew from Leningrad to Kiev on a gargantuan Ilyushin-86 airliner, with its peculiar internal configuration that our military experts said reflected its primary function as a troop carrier. Still, even if you assume that the Soviets spend in absolute terms as much on armaments as the Americans, that's only the equivalent of 7% of the U.S. gross national product. In

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the U.S. the consumer to a large extent *is* the economy. But where are the Soviet consumers' soap cartons?

"The consensus of American Soviet experts and the Central Intelligence Agency has been that the Soviet economy is around 60% of the U.S. economy," says Paul Craig Roberts of the Center for Strategic & International Studies in Washington, D.C. "But recently the Soviets themselves have published estimates that it's not larger than a third. I'm prepared to go so far as to say that, using market valuations, it may be as low as a fifth or even a sixth."

In order to match U.S. defense spending, in other words, the Soviets may have been devoting an astonishing 20% or more of their gross national product to their military.

Roberts, a former aide to Representative Jack Kemp (R–N.Y.), is now best known as one of the supply-side theorists behind the Reagan tax cut. But his early academic work was on the Soviet economy, arguing that it was not really planned but functioned as a perverted—and hence inefficient—market. He is currently working on a book about the Soviet economy and its Western observers, whose persistent credulity about Soviet achievements he attributes to their own antimarket bias.

"It's ridiculous when you can learn more from Soviet sources than from Western experts," agrees Nicholas Eberstadt, a Visiting Fellow at the Harvard University Center for Population Studies. Eberstadt's new book, *The Poverty of Communism*, pieces together Soviet statistics to show that health standards in the U.S.S.R. appear to be deteriorating, extraordinary for an industrialized country. Soviet health levels, Eberstadt says, are about those associated with Latin American per capita output: "It's sort of a militarized Venezuela."

Much in the Soviet Union is profoundly impressive. We found ordinary Russians spontaneously offer to help inarticulate strangers. We saw no hint of street crime and no public drunkenness, the latter said to be endemic pre-Gorbachev. (We saw no public drink either, for that matter, suggesting the problem may not have been solved so much as repressed by the simple expedient of removing both alcohol and alcoholics. But either way, it beats New York.)

Most impressive of all, however, is the sheer political will that has made a superpower with an empire upon which the sun never sets out of an economy upon which the sun never

The Europeans caught a very nice case of economic growth. Then Germany's central bankers remembered inflation paranoia.

The Bundesbank brakes

By Peter Fuhrman with William Heuslein

IN THE YEAR JUST ending, the economies of France, West Germany, Britain and Italy grew by more than 3%. Not since 1973 have all four accomplished so much in a single calendar year.

Thanks to Europe's strong growth in 1988, U.S. exports to the 12 European Community nations are running at $75 billion annually, 25% above their 1987 level. The U.S. trade deficit with Western Europe has fallen by nearly 50% since 1985. Score a major victory for former Treasury Secretary James Baker, a strong proponent of coordinated economic policies between major industrialized countries.

Unfortunately, it's too soon to uncork the champagne. Some ranking political and financial officials in Europe now want to slam the brakes on this nascent recovery. Nowhere is this more evident than in West Germany. There, Bundesbank President Karl Otto Poehl's 1987 strategy of dropping German interest rates to help steady the dollar and provide liquidity after the stock market crash is being replaced by exaggerated infla-

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1347. Huey Lewis: all World. Latest d time rockers in-de Perfect World, re. (Chrysalis)

356. Vivaldi, The 4 asons—Trevor Pin-k. (Archiv *DIGITAL*)

187. Bruce Hornsby he Range: Scenes m The Southside. The ey Road, more. (RCA)

008. Randy Travis: 8x10. Honky Tonk n, Deeper Than The ler, more. (Warner-s.)

179. Tchaikovsky, 2 Overture; Nut-cker Suite; more—ti. (London *DIGITAL*)

629. Whitesnake. Of The Night, Give All Your Love, more. ffen)

100517

200596. U2: Rattle & Hum. Live set includes I Still Haven't Found What I'm Looking For, Desire, more. (Island)

182522. Dirty Dancing/ Original Soundtrack. (I've Had) The Time Of My Life, more. (RCA)

200478. Metallica: And Justice For All. One, Blackened, title song, more. (Elektra)

100603. Kenny G: Silhouette. We've Saved The Best For Last, more. (Arista)

154404. Chicago 19. Don't Wanna Live Without Your Love, Heart In Pieces, etc. (Reprise)

115457. Itzhak Perlman: French Violin Showpieces: Carmen-Fantasy, Havanaise, more. (DG *DIGITAL*)

144578. The Judds: Greatest Hits. Give A Little Love, Mama He's Crazy, etc. RCA

223559. Beach Boys: Endless Summer. 20 Greatest Hits.

115306. Handel, Water Music—Trevor Pinnock. (Archiv *DIGITAL*)

100601. Squeeze: Classics. Take Me I'm Yours, Striking Matches, Tough Love, more. (A&M)

104898. Cream: Disraeli Gears. Sunshine Of Your Love, more. (Polydor)

173233. James Galway: Greatest Hits. (RCA)

154633. Steve Winwood: Roll With It. Don't You Know What The Night Can Do?, Holding On, etc. (Virgin)

100470. Vangelis: Direct. (Arista)

153582. Tracy Chapman: Fast Car, Talkin' Bout A Revolution, Baby Can I Hold You, etc. (Elektra)

115436

152854. Whitney Houston: Whitney. Didn't We Almost Have It All, etc. (Arista)

150913. Van Halen: OU812. (Warner Bros.)

134073. Richard Marx—Hold On To The Nights, Endless Summer Nights, Should've Known Better, etc. (EMI)

163579. Segovia Plays Ponce, Rodrigo & Torroba (MCA)

100579. K.T. Oslin: This Woman. Money, title song, Hey Bobby, etc. (RCA)

100035. Robert Palmer: Heavy Nova. Simply Irresistible, etc. (EMI-Manhattan)

120768. 20 Greatest Love Songs Of The 50s & 60s. (Laurie)

123721. Jimmy Page: Outrider. (Geffen)

134321. Led Zeppelin. Houses Of The Holy—The Song Remains The Same, more. (Atlantic)

105392. Pops In Space—Boston Pops/Williams: Star Wars, Superman, more. (Philips *DIGITAL*)

173406. Jazz CD Sampler. 15 performances from Louis Armstrong, others! (PolyGram)

123790. James Taylor's Greatest Hits. Fire And Rain, Sweet Baby James, more. (Warner Bros.)

154537. Carly Simon: Greatest Hits Live Anticipation, You're So Vain, more. (Arista)

115541. Bach, Brandenburg Concertos 1-3—Pinnock. (Archiv *DIGITAL*)

172190. Elvis Presley: 18 No. 1 Hits (RCA)

134267. Mozart, Overtures. Marriner. (Angel *DIGITAL*)

100591. Steve Miller: Born To Be Blue. Ya, Ya, more. (Capitol)

273965. Sting: Nothing Like The Sun. We'll Be Together, more. (A&M)

134647. J. R. Baker: Rhapsody In Electric Blue. Gershwin on synthesizer! (Newport Classic *DIGITAL*)

244006. Simon & Garfunkel: The Concert In Central Park. [1 disc] (Warner Bros.)

124705. Jethro Tull: Aqualung. (Chrysalis)

134408. David Sanborn: Close-Up. Slam, You Are Everything, Way, etc. (Warner Bros.)

153606. INXS: Kick. Need You Tonight, New Sensation, etc. DIGITAL (Atlantic)

153621. Beethoven, Symphony No. 7; more. Royal Phil. Previn. (RCA *DIGITAL*)

164165. Bobby McFerrin: Simple Pleasures. Don't Worry Be Happy, All I Want, etc. (EMI)

125264. Horowitz in Moscow—Scarlatti, Mozart, Rachmaninov, others. (DG *DIGITAL*)

144313. Classic Rock: Vol. 1. Elton John: Bennie & The Jets, more. (MCA)

170348. Guns 'N' Roses: Appetite For Destruction. Welcome To The Jungle, It's So Easy, etc. (Geffen)

163322. Elton John: Greatest Hits, Vol. 1. Your Song, Daniel, others. (MCA)

160027. Alabama: "Live". Love In The First Degree, There's No Way, Dixieland Delight, etc. (RCA)

100516

130230. Crosby, Stills, Nash & Young: So Far (Greatest Hits). Suite: Judy Blue Eyes, more. (Atlantic)

124546. The Moody Blues: Sur La Mer. I Know You're Out There Somewhere, No Lies, etc. (Threshold)

143293. Glenn Miller Orchestra: In The Digital Mood. (GRP)

114780. Cinderella: Long Cold Winter. Gypsy Road, Don't Know What You Got (Till It's Gone), etc. (Mercury)

154358. Slatkin Conducts Pictures At An Exhibition, more—(RCA *DIGITAL*)

144659. The Best Of The Spencer Davis Group. Steve Winwood & Co. on Gimme Some Lovin, etc. (EMI)

100352. Diane Schuur: Talkin' 'Bout You. Title song, Funny (But I Still Love You), etc. (GRP)

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tion fears, prompting tightfisted monetary policies. These new policies threaten to slow the pace of European growth and hobble U.S. exports.

"The time of diminishing prices is over," frets Helmut Schlesinger, vice president of the Bundesbank and chief architect of West Germany's tough anti-inflationary monetary policy. "We're on the way to higher rates of price increases and will have to take care of this inflation much more in 1989 than during much of 1988."

Reflecting Schlesinger's fears, the Bundesbank in mid-December raised its benchmark Lombard rate to 5.5%, the highest rate in two years. Central banks of most major European nations followed suit. Earlier, the U.K.'s Chancellor of the Exchequer Nigel Lawson steered commercial banks to raise their prime lending rate from 8.5% to 13% in the second half of 1988, to choke roaring consumer demand. Schlesinger predicts the growth of the German economy will slow by 1 percentage point this year, to settle at 2.5%.

Is such drastic action really necessary? Schlesinger defends his actions: "The [German] money supply is growing by almost 7% this year, overshooting our target for the third year. For a country with no inflation, that is a very high rate. We are aiming at more modest expansion."

Central bankers, of course, are paid to be cautious. But Schlesinger's inflation fear itself seems inflated. Throughout Europe, inflation remains low. In Germany, prices rose by barely 1.2% in 1988. Oil and most commodity prices, when denominated in deutsche marks, continue to fall. With 8.5% of the German work force unemployed, the current high rate of growth is not fueling wage inflation.

Schlesinger correctly warns that the German inflation rate will edge up in 1989. But much of that rise will come from increases in consumption taxes, just as in Britain sharply higher mortgage rates will feed directly into the Retail Price Index.

Europe's hit-the-brakes policy has another aim: to pressure the U.S. to curb spending, and to prevent the U.S. from exporting inflation. When the Bundesbank raises interest rates, the U.S. Federal Reserve must follow, or risk a fall in the dollar. The Europeans find virtue in this. Putting the brakes on U.S. growth, they argue, will cut imports and force congressmen to cut spending. What the Europeans underplay is the fact that net interest expense accounts for 14% of U.S. government spending and, it follows, that the most immediate effect of boosting interest rates is to boost the deficit.

Making matters worse, the Germans no longer feel obliged to deregulate their economy, larded as it is with subsidies and anticompetitive laws. Schlesinger concedes the point. "Many German politicians now feel that things are so good economically in Germany that there is no reason to push for needed changes," he says.

Absent inflation fears, the Bundesbank could reverse its recent restrictive drift. Down that path would lie healthy growth and additional closing of the U.S. trade deficit. According to forecasts by the Organization for Economic Cooperation & Development, Western Europe could grow faster in 1989 than the U.S.—for the first time since the economic expansion began in 1982. A Europe growing 1% faster than the U.S. will pull in still more American exports, reducing the U.S. trade deficit by as much as $9 billion per year. Says Harvard economist Jeffrey Sachs, "Europe is an odds-on choice to be a major center of world growth, taking over some of the roles the U.S. played in the last few years in keeping aggregate demand in the world economy rising adequately."

Alternatively, the central bankers could persist with their inflation fears and higher interest rates. That would lead to curbed European investment and crimped U.S. goods exports. At the moment, the second option seems more likely. ■

Our bill for medical care keeps growing at more than twice the rate of inflation. But not the cost of treating some chronic illnesses at home. Credit technology and some savvy entrepreneurs.

Home remedies

By Ellen Paris

THREE YEARS AGO Martha Covey, an Atlanta librarian, was diagnosed with ovarian cancer. Since then she has been in and out of hospitals undergoing chemotherapy.

But two months ago Covey, 62, began a new kind of chemotherapy treatment. Thanks to new technologies and drugs, she is being treated outside the hospital. Twice a week a nurse visits Covey—once at home, once at the library—to monitor a little pump she wears on her belt that squirts small doses of an anticancer drug into her system. "It's been working out very well," says Covey. "The best part is I can go to work and put in a full day." And there's another important side effect: Her new treatment is about half as expensive as the old would be if she were hospitalized.

Covey is one of more than a quarter of a million Americans now receiving some kind of intravenous therapy at home. The home infusion market, a it's known, is estimated at $1.1 bil lion, four times its size in 1983. Man of the more expensive diseases lik cancer and AIDS are suited for hom infusion treatment. "When patient have reached the chronic stable leve most things that are done at the hos pital can now be done at home," ex plains Dr. B. Smith Hopkins, a Mar hattan surgeon who has many suc ambulatory cancer and AIDS patients

With the nation's health care bi (estimated at $541 billion last yea still rising at more than twice th inflation rate, wider use of home infu sions may do a power of financia good. Intravenous therapy for canc administered at home costs aroun $215 a day, for AIDS around $30 Sounds expensive, but just by savin the cost of the hospital bed it can b about 40% to 50% cheaper to ha home infusion therapy than to get th same treatment in a hospital. (At L Angeles' Cedars Sinai Medical Ce

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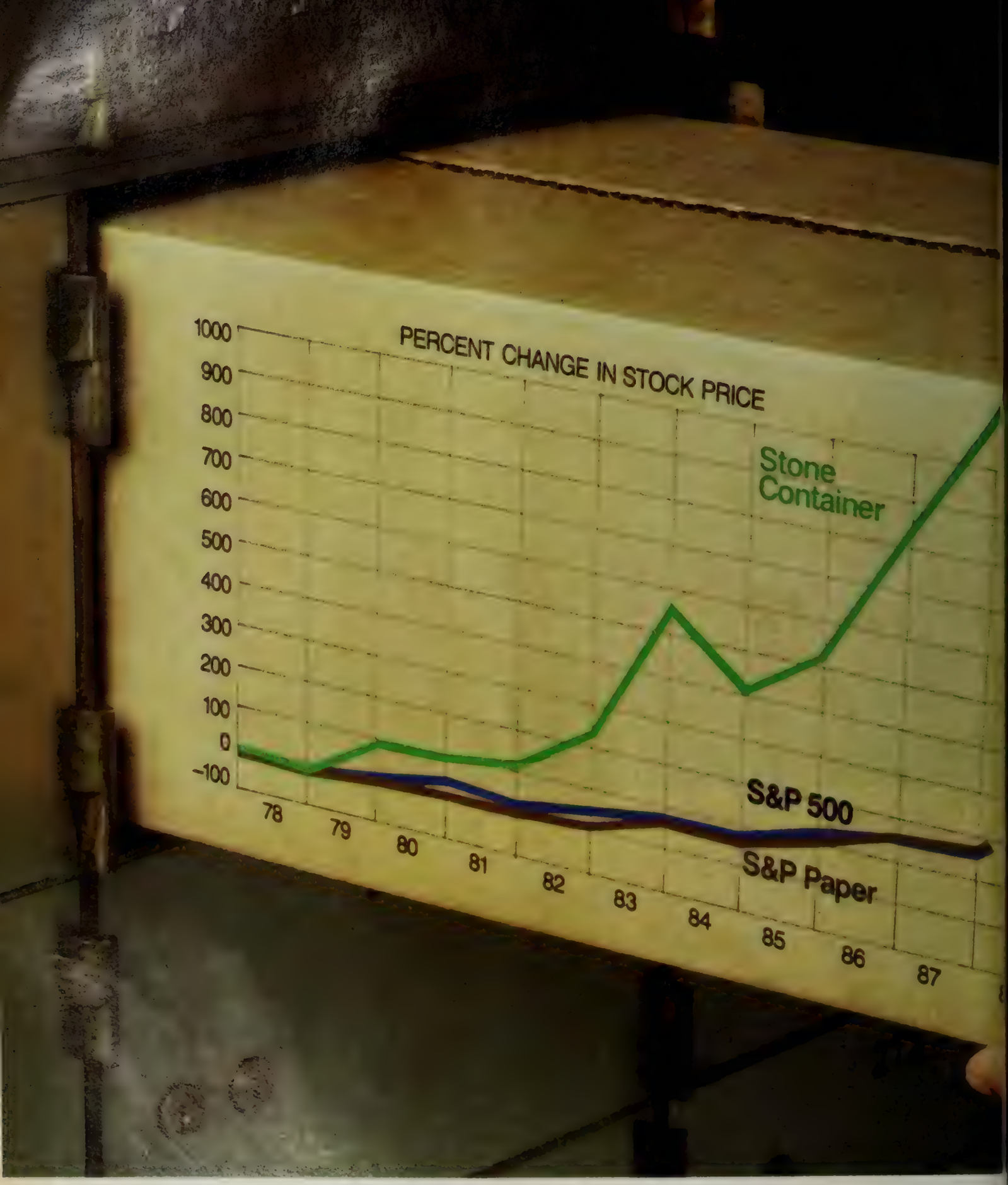

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"Patients are being forced out of the hospital sooner. There is more and more pressure for shorter hospital stays from third-party payers" such as insurance companies, employers who self-insure, and health maintenance organizations.

ter, for example, the hospital bed alone costs $476 a day, not to mention the extraordinary ancillary charges for aspirin and cotton balls.)

Home infusion therapy began about ten years ago with intravenous feeding, called total parenteral nutrition therapy (TPN), for people with digestive tract diseases and disorders like stomach and colon cancer, Crohn's disease and colitis. Now administration of antibiotics, chemotherapy and pain therapy at home are becoming routine. The most common diseases and disorders treated today with home infusion therapy are cardiac and bone infections, cancer and AIDS.

"Patients are being forced out of the hospital sooner," says Jack Rosen, chairman of Continental Health Affiliates, a $30 million (estimated 1988 revenues) Englewood Cliffs, N.J.-based home infusion company. "There is more and more pressure for shorter hospital stays from third-party payers" such as insurance companies, employers who self-insure, and health maintenance organizations.

Technology is one of the central forces in the market expansion. Not long ago intravenous therapy meant a tall metal pole, a bottle and lots of tubes in a hospital setting. Today microchips make possible pocket-size programmable pumps squirting precise dosages of drugs into the patient's system with only minimal professional monitoring required.

Patients, needless to say, are happier. "Ninety-eight percent of my patients are eager to leave the hospital, they're better off at home and recover faster," says Dr. Charles Lerner, an infectious disease specialist in San Antonio. Last summer Diane Gladney, 33, of Mission Viejo, Calif. spent ten days in a hospital getting antibiotic treatment for Lyme disease. Besides the expense, it disrupted her family life. Now she's being treated at home, which allows her to take care of her three children. "It's much better for the whole household," she says.

Patients recuperating at home also run less risk of catching something else from other patients. This is especially important for AIDS victims. This year AIDS accounted for $50 million of the total home infusion market and is expected to almost triple in the next two years. The recently passed federal AIDS bill calls for some provisions for home care this year.

Competition, too, is expanding the business. Into this market have jumped about half a dozen small public companies like $48 million (estimated 1988 revenues) New England Critical Care (FORBES, *Feb. 9, 1987*) and $35 million (estimated 1988 revenues) Houston-based HMMS. The major player, however, is $450 million (estimated 1988 revenues) Caremark HomeCare, a unit of Baxter International. Typically, referrals are made by doctors, case managers or insurers. Most companies deliver drugs and equipment to the patient's home and provide a registered nurse to administer the therapy or to teach the patient how to do it himself. It's a good business. New England Critical's net margins run around 11.5%.

The home infusion market will expand as new drugs that can be infused and more home systems become available. The fastest-growing market appears to be antibiotics. Currently that market is $315 million, about 29% of the whole home infusion market, up from $205 million last year. And in 1990 that market will get a shot in the arm when the recently passed Catastrophic Coverage Act of 1988 goes into effect and Medicare begins covering home antibiotic infusion care.

There's more. New applications include pediatric growth hormones and a drug used to prevent women from prematurely going into labor. Further out is nutritional infusion therapy for premature babies. To go on is to risk invading ground usually reserved for science fiction. Says Dr. Robert Winters, chief executive of home nutritional service of Marietta, Ga.-based Healthdyne: "Anything that goes through a needle that is legal could have a part in this market." ■

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Only yesterday oil companies were unloading refineries and gas stations. Now that's what everybody wants to have.

Fill 'er up

By Howard Rudnitsky

POWERFUL CARS are in demand again, and people are driving more. Consequently, U.S. gasoline demand is now running around 7.3 million barrels a day, up from 6.7 million in 1984. Against that demand, there is only 6.9 million barrels a day of domestic gasoline production. Demand is growing by over 100,000 barrels a day. "There's little question," says Alan Gaines, energy analyst and president of New York's Gaines, Berland Inc., "that the U.S. oil industry has shifted from excess refining capacity to a shortage."

If there is an oil glut, it is at the crude oil level; no longer must gas stations slash prices to move product.

Talk about a reversal of fortunes. A few years ago oilmen were selling refining and marketing assets at distress prices. As recently as 1987, a refinery sold for about $950 per daily barrel of capacity. Look at refinery prices now. This fall Mobil purchased Tenneco's 175,000-barrel-a-day Gulf Coast refinery for $560 million—about $3,300 per barrel. Marathon Petroleum in November bought the 50,000-barrel-a-day Rock Island refinery in Indianapolis for about $4,000 a barrel. Foreign producing countries are offering even higher prices for U.S. refineries, not just for economic reasons *(see box, below)*.

With prices way up, are buyers overpaying? Oppenheimer & Co. energy analyst William Hyler doesn't think so: "While oil refining will never be as profitable as petrochemicals, still I think oil refining today is where the petrochemicals business was about two years ago—taking off." Hyler predicts, "Improved refining and marketing margins are likely to continue for some time, even though there will always be some short-term volatility in refining."

The situation is made to order for refiners. Compared with a few years ago, crude oil prices, their raw material, are weak, while prices for refined products have been steady.

Refining and marketing companies aren't the only winners in this turnaround. Also getting a lift are the big integrated oil companies short on oil reserves but long on gas stations and refineries *(see table, p. 66)*.

Amoco quadrupled its refining/marketing profits in the first nine months of 1988, to $630 million. In the U.S. market, Exxon lost $50 million in refining/marketing in the first nine months of 1987 but made $414 million in the first nine months of 1988. Texaco converted a $63 million loss on refining and marketing in the first three quarters of 1987 into a $402 million profit in 1988's first nine months. Ashland Oil's refining/marketing profits spurted from $26 million in 1987 to $230 million last year.

Anyone today with a retail gasoline network owns a valuable franchise. High-volume, 24-hour gasoline service stations are cash machines, some of them earning returns as high as 35% on investment. By adding convenience food stores to station locations, the marketers greatly increase their profit potential.

Aside from the major oil companies, Diamond Shamrock in Texas and Marathon Oil, Total Petroleum and Ashland Oil in the South and Midwest are among the most efficient regional marketers. At Ashland Oil,

Quota fudging?

Refineries in the U.S. process 15 million barrels of oil per day, almost half of it gasoline. Of that total, foreigners now own under 10%, but they seem keen to acquire more.

Although not all refineries are the same, it's clear that prices are rising rapidly. In September 1986, for example, the Venezuelans acquired 50% of Southland's Citgo refinery and marketing operations for about $290 million, or some $1,400 per daily barrel of capacity. In September 1988 Union Pacific Resources agreed to sell its 100,000-barrel-a-day Wilmington, Calif. refinery to Great Britain's Ultramar Plc. for $440 million, or over $4,000 per barrel. The Venezuelans are now negotiating to buy half of Unocal's 150,000-barrel-a-day Chicago refinery (and over 100 gas stations) for an estimated $535 million, or $5,800 per daily barrel.

The Saudis, too, have been active. Texaco recently sold the Saudis a 50% interest in its eastern and Gulf Coast refining and marketing operations, with refining capacity of over 600,000 barrels a day, for $1.8 billion, or well over $4,000 a barrel. Another Saudi refinery deal is reportedly in the works.

What has been behind the upsurge in deals? More than foreign producers' strivings for assured markets for their plentiful crude and for a piece of refining and marketing profits. Some OPEC countries also saw investing in a refinery as a way around some of OPEC's crude oil export production quotas. By owning even a part of a foreign refinery, an OPEC country could find ways to ship oil for that refinery's operation that might not have been counted in the country's quota.

As a result of the recent OPEC agreement in Vienna, C.J. Lawrence/Morgan Grenfell's energy strategist Charles Maxwell contends, that sort of quota fudging will be ruled out as of Jan. 1, 1989.

Even if that ban holds, expect more refinery deals. The money to be made downstream, plus the desire for assured markets, are strong enough reasons.—**H.R.**

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Right place, right time

Widening oil refining and gasoline margins have boosted profits for most of the 13 companies listed below. The biggest gains are going to those oil companies most dedicated to refining and marketing. The stock market has just begun to take notice. Although prices have risen, earnings are rising even faster.

Company	Domestic refining capacity (bbl/day) (000)	Nine months refining and marketing net income ($mil) 1988	1987	Earnings per share	P/E	52-week price range	Recent price	Current yield
Integrated majors								
Amoco	967	$631	$147	$8.03	9.2	80¼–63	74	4.7%
Arco	644	280	100	8.42	9.4	90⅞–63⅞	79¼	5.0
Exxon	1,211	1,249	135	4.01	11.1	47¾–36½	44⅝	4.9
Mobil	755	701	241	4.88	9.3	49⅛–35	45⅝	5.3
Phillips Petroleum	305	302[a]	137[a]	2.29	8.8	22⅜–10	20¼	3.6
Sun	462	204	24	2.92[b]	—	33⅜–28	32½	5.5
Texaco	899	693	55	5.47[c]	—	52½–31¾	50⅛	6.0
Unocal	490	124	28	1.56[d]	—	40⅜–24⅞	37⅞	2.6
Refining & diversified[a]								
Ashland	346	201	14	3.29	10	37⅞–26⅜	33	3.0
Diamond Shamrock	155	41	13	1.20	12.6	17 – 7½	15⅛	2.6
Mapco	100	48	16	4.99	10.8	60⅜–42¾	54	1.9
Tosco	137	56	34	0.75[e]	4.1	3⅝– 1⅜	3⅜	—
Marathon Oil[f]	588	336	160	1.94	14.8	34⅜–26	28¾	4.9

a: Nine month pretax income. b: Before extraordinary charge of $2.81 per share. c: Before extraordinary charge of $19.83 per share. d: Before extraordinary charge of $1.15 a share. e: Before extraordinary gain of 79 cents a share. f: Earnings per share and stock data are for USX, Marathon's parent.

the gross margin on unleaded premium gasoline reached 19 cents per gallon last fall, compared with only 10 cents two years earlier. A number of oil companies report margins of anywhere from 12 cents to 14 cents per gallon of gasoline sold at the pump, with the best margins coming from the high-octane unleaded gas sold for today's popular big cars.

Ironically, much of this new profitability traces to government action. In the early to mid-1980s many refineries were shut down because environmental restrictions would have required them to spend huge amounts to comply with the law. The closing of over 100 refineries has removed more than 3 million barrels per day of domestic capacity—15% of the total.

The process continues. California recently passed legislation to require refiners to spend almost $300 million on scrubbers and emission control devices for refineries in the state. At the federal level, the Environmental Protection Agency will soon demand that refiners reduce sulfur content in diesel fuel by 1993, costing the industry over $3 billion. Additional EPA requirements being considered to produce gasoline with lower vapor pressure to reduce gasoline volatility may cost another $1 billion. Such costly expenditures could lead to the shutdown of still more refining capacity.

There will be some incremental capacity additions and upgrading of existing refineries. British Petroleum's Sohio, for example, is reportedly about to construct one of the largest continuous catalytic reformers in the world at its 130,000-barrel-per-day Toledo, Ohio refinery, at a cost of $60 million, to boost high-octane yields. Ashland Oil will spend about $50 million over the next four years at its three midwestern refineries, reports Ashland Chairman John Hall, "to remain competitive in the octane race."

But no one expects any massive capacity additions built from the ground up anytime soon. Even with returns on refining assets approaching 18%, says Oppenheimer's Hyler, "there's little incentive to build new refinery capacity." Hyler believes asset returns must stabilize at around 30% to warrant building a new refinery.

Arnold Zann/Black Star

Marathon Oil's Speedway gas station
Pumping premium profits.

Until recently, the gap between U.S. demand for refined products and U.S. supply has been filled by shipments from Europe, where overcapacity existed. Now the European economies are growing more rapidly, and Europe in 1989 will start converting to unleaded premium gasoline. As a result, European oil companies will have less product to sell in the U.S. Canada, too, will begin converting to unleaded in 1990.

Don't be surprised if the gasoline refiners' new health plays a part in the calculations of congressional budgeters, who are mulling over a gasoline tax to help close the budget deficit. Producers themselves would be hard put to plead hardship in the event of a modest boost in gasoline taxes. Such a tax might make it more difficult for refiners and marketers to raise prices but would be unlikely to reduce demand significantly. If a gasoline tax of no more than 15 to 20 cents a gallon were imposed, and phased in over time rather than all at once, says Ashland Oil's Hall, demand would be hurt little, if at all. ■

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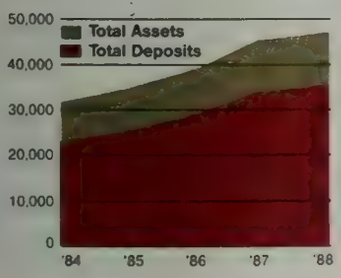

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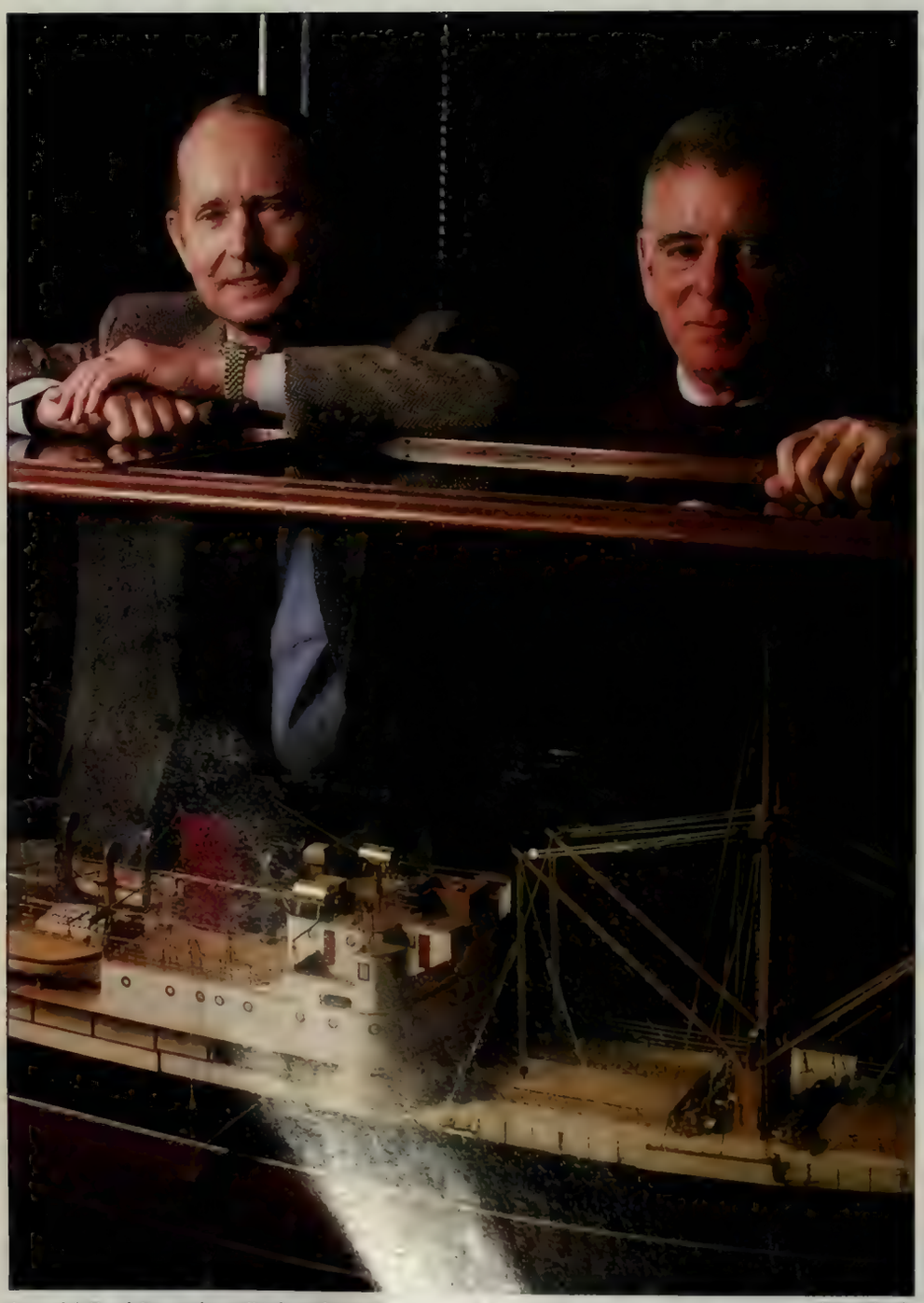
Lands' End, Inc. isn't just another catalog company. It's a national apparel company that has figured out how to grow without requiring too much capital.

Big picture strategy



Diane Schmidt

Lands' End President Richard Ander[illegible]nder Gary Comer
"As the affluent market grew, we [illegible]t along with it."

By Ronit Addis

IN OCTOBER 1986, after 23 years o[illegible] successfully selling sailing equip[illegible]ment, clothing and related item[illegible] by catalog, Lands' End, Inc. sold 14[illegible] of its shares to the public. Most initia[illegible] public offerings end badly for the in[illegible]vestors. Not this one. The offerin[illegible] price was 30, and within 11 month[illegible] the stock split 2-for-1. The spl[illegible] shares recently traded at 26.

Quite obviously, Lands' End's cus[illegible]tomers like the merchandise as muc[illegible] as the investors like the stock. Sinc[illegible] 1984, when its numbers first becam[illegible] visible, Lands' End's sales have grow[illegible] 28% a year on average, earnings 26% and return on average equity is up a[illegible] impressive 46%. Any way you phras[illegible] them, its numbers stand out. Lands[illegible] End earned $25 million in the last 1[illegible] months on sales of $367 million. Tha[illegible] gave it a net profit margin of 6.7% most retailers would be happy to ne[illegible] 5% on sales.

A relative newcomer to the direc[illegible] mail merchandising business, Lands[illegible] End has zoomed past most of its com[illegible]petitors. Today there are at least 50 different apparel outfits flooding th[illegible] mail with catalogs. What has mad[illegible] the Lands' End catalog stand out i[illegible] this crowded field? Indeed, what en[illegible]ables any successful company t[illegible] stand head and shoulders above mos[illegible] of its competitors?

In this case, great management ex[illegible]emplified by a unique marketin[illegible] strategy. Most catalog merchants le[illegible] their catalogs and the products fea[illegible]tured therein speak for themselves Lands' End goes a step further.

"The company has spent million[illegible] to build a brand identity for the term 'Lands' End,' " says Jay Walker, chair[illegible]man of Catalog Media Corp., a catalo[illegible] promotion company. "It is pairing so[illegible] called space advertising with direc[illegible] marketing. Nobody has ever tried tha[illegible] before in the direct marketing busi[illegible]ness to my knowledge. It takes gut and a lot of money."

Most readers have seen Lands' En[illegible] advertisements. They rarely feature [illegible] product; that job is done by the cata[illegible]logs. What the advertisements do i[illegible] sell Lands' End itself as a quality im[illegible]age, as a good neighbor, as a compan[illegible] that you would want to do busines[illegible] with. It works.

Spiegel, the catalog merchant con[illegible]trolled by Germany's Otto family does some space advertising, bu[illegible] more to promote premiums than t[illegible] build its image. L.L. Bean, a bigger an[illegible] far older direct mail marketer tha[illegible] Lands' End, uses some space advertis[illegible]ing, but concentrates on promotin[illegible]

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its catalog.

Lands' End wants to be sure you have a nice warm glow about the company even before the latest catalog hits your mailbox. Once it hits, Lands' End does all the right things to sustain the image. There is little of the usual superhype of many catalogs; the prose is clean and clear, unpretentious but intelligent. There are accompanying essays to entertain the customer about trekking through the Sahara Desert and traveling through Australian wool country. In an age when catalog-browsing is a common leisure time activity, Lands' End takes full and sensible advantage of this interest.

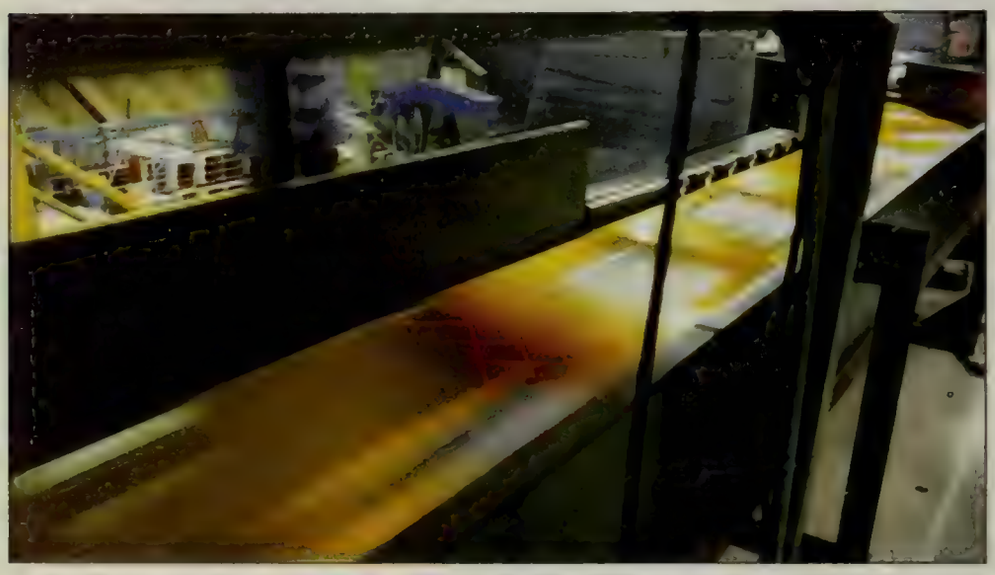
The ambience carries through to the ordering. There's a toll-free number, one of the first in the business; there's a human being at the other end of the telephone who is helpful—who will arrange to have swatches sent to you or a garment's measurements detailed—as well as take your order. There is quick response: 90% of all orders are filled within 24 hours of receipt; there is Federal Express availability at low cost, for those of the Dr. Spock generation who cannot wait to get their goods.

There is also guaranteed satisfaction. And Lands' End means it. The company, remember, is selling a name and building name loyalty. Company founder Gary Comer says he keeps in the front of his mind the vision of a customer opening a box containing the merchandise he has ordered: It must be exa[illegible] buttons sewed on secure[illegible] matching, just what the custo[illegible] in his mind.

Unlike many apparel merchants, which source extensively in the Far East, Lands' End buys 75% of its merchandise from U.S. manufacturers. Thus, it can easily inspect its suppliers. It maintains a fleet of three airplanes and a staff of pilots to fly quality control staffers to these sites. It zealously collects and tabulates complaints and takes corrective action. It operates its warehouse with the most up-to-date equipment.

Lands' End knows a secret—although it shouldn't be a secret. A business that cultivates an image and then fails to carry out that image is asking for trouble.

Lands' End's mailing list consists of 8 million core names, 45% of whom have made purchases within the last 36 months. Richard Anderson, who recently was named president and chief operating officer, says, "The list is our gold."



Bar code scanner sorting merchandise at the Lands' End warehouse
Even before the catalog hits the mailbox, a nice warm glow.

The gold is mined extensively. Lands' End sent out 64 million copies of its 13 catalogs in 1987. By comparison, L.L. Bean mailed out 85 million of its 22 catalogs, Spiegel sent 150 million of its 42 catalogs and J. Crew sent more than 15 million of its 12 catalogs.

Gary Comer, the person behind all this, is an unassuming man who has been one of The Forbes Four Hundred since 1987. He turned 61 last month and decided to step down from day-to-day operations in favor of his associate Richard Anderson, a director at Lands' End since 1978. Comer continues as chairman and chief executive but is now devoting himself to long-term plans.

Lands' End's individualistic approach to its business grew naturally out of Comer's personal experience. Comer never attended college. He got his start in the advertising business in his native Chicago, where he joined Young & Rubicam after graduating from high school, eventually rising to a copywriter. A sailing buff, he left Young & Rubicam after ten years to start a company selling sailing equipment by mail order—hence the name Lands' End. Comer explains: "There were a lot of changes taking place [in the sailing world]—new companies, new ideas, new fittings. No one really understood them. We set out to not only supply the fittings but to show people how to use them, so there was a lot of editorial in those [early Lands' End catalog] books. They've become collectors' items. We did one a year."

Comer says he always wanted to start a business. He took to it like a . . . like a sailor to water. Lands' End gradually broadened its product line, first to duffel bags, then luggage (which it manufactures), then clothing for the sailing set, and eventually to a more general line of casual clothing. "As the affluent market grew, we grew right along with it," says Comer.

In 1976 the company stopped selling sailing gear, realizing that apparel and luggage were more profitable. In 1978 Comer moved Lands' End from Chicago to Dodgeville, Wis., a rural community with plenty of room for a 475,000-square-foot warehouse. He also found there an ample supply of willing workers to man Lands' End's 575 phone lines.

What next for Lands' End? The company is a cash machine and requires little reinvestment. Long-term debt is now only 9% of capital. Instant credit card authorizations and check clearing before goods are shipped have kept receivables insignificant, and fraud to a minimum.

There is always a temptation in a business like this to diversify, to use borrowing power to expand fast through diversification. Indications are that Comer is too smart for that. By staying in his present business, he has the opportunity to expand considerably without taking on much debt or diluting present shareholders' equity. Expand where? "Our competition is not the Spiegels and L.L. Beans of this world but department and specialty stores," says Anderson.

His point is that Lands' End is not a catalog company but an apparel company that happens to sell through catalogs. Retail apparel industry sales run at around $100 billion a year, and right now Lands' End has barely one-half of 1% of that business. Yet its marketing strategy has made it a national company without requiring huge investment in physical facilities. "Lands' End is run by marketers," sums up Jay Walker. "Marketers with a big picture strategy." ■

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A FSLIC lawsuit against some Dallas lawyers has lawyers everywhere quaking. Are banking attorneys about to become the industry's cops?

The thrift police

By Deirdre Fanning

THE TEXAS STATE COURT system has become a jungle, infested by politics and less than impartial judges. Texaco was almost destroyed in a Texas state courtroom. A mom-and-pop business has just won a judgment worth at least $600 million against giant Tenneco. It's a lawyers' paradise.

But now in Texas federal court it looks like the tables are turned. This time the lawyers are getting it in the neck. In Lubbock the Federal Savings & Loan Insurance Corp. filed a suit against one of Dallas' most prominent corporate law firms, Jenkens & Gilchrist, and one of its former partners, Laurence Vineyard Jr. At issue is the firm's—and Vineyard's—role as outside counsel for the now-defunct State Savings & Loan Association of Lubbock.

FSLIC is asking for a Texas-size award of at least $100 million.

Specifically, FSLIC charges that Vineyard and his law firm are liable for malpractice and negligence in failing to take some obvious and needed steps to root out a widespread pattern of fraud and loan abuse within the S&L. Thus, the Federal Savings & Loan Insurance Corp. charges, Vineyard and his firm should be held liable for a share of the losses incurred when the S&L collapsed.

Among other things, the case raises the explosive question of whether lawyers can and should be held accountable for the misdeeds of their clients. Depending on the way in which the case is resolved, the decision made in Lubbock could put lawyers in the same unhappy position medical doctors now find themselves in: constantly being sued for malpractice and burdened with costly malpractice insurance.

There are no precise guidelines—other than ethical standards—indicating just what a lawyer should or should not do for a client if that client happens to be a thrift. Instead, the practice of law dealing with thrifts has evolved through custom and tradition. In savings and loans, outside counsel have traditionally been used largely as document preparers, providing the paperwork and contracts needed to underpin a loan or other banking transaction.

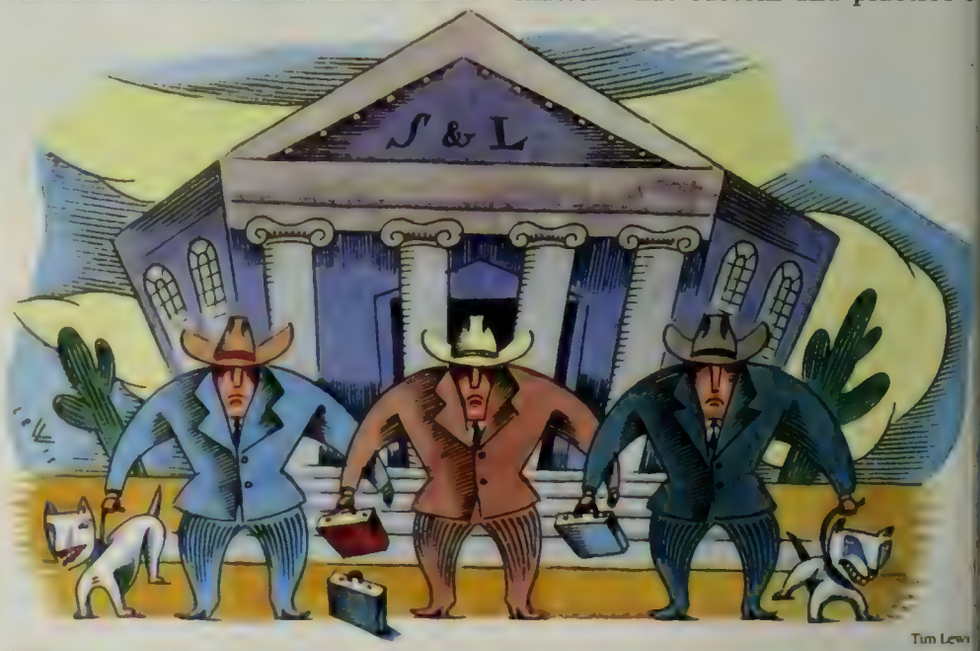
Rarely, if ever, do outside counsel for thrifts, or indeed for any banks, pass on the creditworthiness of borrowers, investigate their backgrounds or audit the business judgment of the officers of a bank. "Lawyers ar lawyers," argues Rodgin Cohen, banking expert at the New York law firm of Sullivan & Cromwell. "That' not what they are trained to do."

Yet FSLIC's lawsuit seems to requir that Jenkens & Gilchrist perforr some bankerly functions. Among th charges leveled against the firm ar claims that Jenkens & Gilchrist law yers failed to disclose, or knowingl misrepresented, facts about the finar cial condition and creditworthiness c some of the thrift's borrowers; faile to detail facts about the actual ent ties receiving the funds borrowe from the thrifts; and generally faile "to take action to protect the [thrif and its] depositors."

It is the last of those charges tha has lawyers most concerned. FSLIC i arguing that any lawyer for a thrift ha a fiduciary responsibility not just t the thrift itself but to its depositor and shareholders as well. Whenc does this broad responsibility derive From the mere fact that the person i a lawyer, FSLIC argues. And if lawyer are responsible for the misdeeds c their banking clients, why not for th misdeeds of any client? Lawyer a whistle-blower.

In other words, it doesn't seem t matter what custom and practice i the industry may be; if FSLIC prevai in this case, lawyers will seemingly b expected to function as policemen t ward their own clients—and can b held liable for damages should the fail to do so.

Holding lawyers responsible for th misdeeds of their clients would ce tainly set a dangerous precedent. Bu let's hope the federal court in Lub bock doesn't follow the lead of i state court cousins and set a prec dent that could come back to haun everyone. ■



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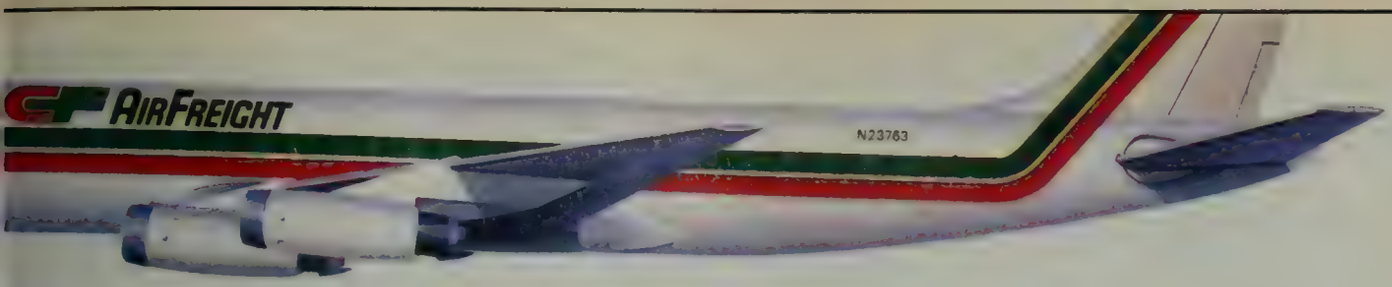

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41st Annual Report On American Industry

1989

Leveraged takeovers dominated the headlines last year. The quieter story, far more important in the long run, was about the application of computer and communications technology to every manner of business.

By Gary Slutsker and Jason Zweig

THIS, FORBES' 41st Annual Report on American Industry, tells two stories. One is financial: the storm of leveraged takeovers and buyouts. The other is technological: the growing importance of applying computer and communications technology to every sort of business.

For example, the phone companies listed in our telecommunications category *(see p. 194)* are going to expand heavily into computer networking and information services. Meanwhile, the computer companies *(see p. 114)* are trying to convince customers that they are truly in the communications business. Thus, during 1988 Unisys bought Timeplex, a maker of data communications equipment, Hewlett-Packard bought into Octel Communications, an up-and-coming voice messaging startup. Even IBM, which sold its Rolm PBX manufacturing and development operation to Siemens, redoubled efforts to help customers set up private telecommunications networks.

Just about everyone is, one way or another, finding advantage in applying computers and modern communications to their businesses. Knowing how to do so is today one of the major tools of good management. The companies with the best profit and growth records in this survey are often the ones that have learned well how to apply computers and modern communications to their businesses. A few examples: An important part of Pitney Bowes' spectacular growth is coming from replacing customers' electromechanical postage meters with new electronic units that enable companies to replenish the postage by phone instead of lugging the meter down to the post office—easier communication. Pitney now spends most of its R&D budget designing software and custom integrated circuits. H&R Block has become the nation's largest preparer of electronically filed tax returns—computerized paperwork. H&R Block a computer company? No, but computers are transforming its business, and keeping up with computers is a prime task facing its management.

The same with airlines. AMR Corp.'s American Air-

lines, for example, has a profitable sideline in computers. Through its worldwide Sabre reservation and travel data processing system, the company is inescapably dependent on computers. In 1988, even as airline profits rebounded strongly, Sabre still accounted for 13% of AMR's $440 million in estimated net earnings. Likewise, PacifiCorp, a holding company with 54% of its assets in electric utilities, earns 14% of its profits from selling long-distance telecommunications services in Alaska and local phone service in nine states.

With technology stocks looking relatively cheap these days, some companies in mature industries are seizing the opportunity to invest in the future inexpensively. Thus, President Peter Scott is turning Emhart from a manufacturing backwater into a high-technology outfit by acquiring firms involved in technology consulting and software services for the government *(see pp. 118-119)*. At Milwaukee's Harnischfeger Industries, Chairman William W. Goessel has given the 98-year-old heavy-equipment manufacturer *(p. 156)* a new high-technology face. These days 18% of the company's operating profits comes from Syscon Corp., a fast-growing Washington, D.C.-based maker of defense-related computer systems that Goessel bought two years ago.

Any business, in short, ignores computers and computer applications at serious risk to its future.

But if computer and communications technology applications were the big business story of 1988, leverage was the big financial story. In one heady week in October—exactly 53 weeks after the October 1987 crash—sudden buyout offers by Philip Morris for Kraft and by RJR Nabisco for itself added more than $8 billion to the stock prices of the two companies almost instantly. Equally abruptly, the bonds of some of the companies involved took a pounding, with RJR Nabisco's long-term bonds losing an estimated $500 million in value.

Leveraged buyout deals dominated the year, with the size of the buyouts leaping upward in great swoops as the months passed—from $6.8 billion for Federated Department Stores in May, to the RJR Nabisco deal at $25 billion in November. What was fueling the frenzy? The motivations for buyouts and takeovers in years gone by—manufacturing capacity, cash on hand—were forgotten in favor of the latest fashion on Wall Street: the gobbling up of brand names.

As the year ended, Congress and the politicians were muttering about doing something to slow the spread of takeovers and of leverage. Privately, though, most of the political figures admit that there is little they can do that would not risk fouling up the function of the free marketplace. There is one fairly simple fix, one which would enhance rather than inhibit free markets: In its cover story of Nov. 28, 1988, FORBES showed how the double taxation of corporate dividends played right into the hands of the leverage artists. But eliminating the double taxation is politically difficult, so Congress probably will simply continue to mutter—and next year at this time more famous corporate names will disappear from this survey, either by going private or by being acquired, in either case with liberal use of debt leverage.

Despite this wastage, this year FORBES' survey has been expanded to include more companies than ever before, 1,116. Our survey now embraces many of the companies that have become too big for the FORBES list of the 200 Best Small Companies in America *(Nov. 14, 1988)* but are still too small to qualify as a Forbes 500 company *(Apr. 25, 1988)*. Among the 166 corporations newly added are such outstanding companies as Wyse Technology, Carnival Cruise Lines and Genentech.

Our new minimum cutoffs for inclusion in this issue are $475 million in assets for banks and $400 million in revenues for most other firms. Exception: the brand-new industry report on biotechnology companies. Here all the companies, with the exception of Genentech, have less than $145 million in sales. FORBES has identified the biotech industry as being so important that it cannot be ignored in any major survey of American business, even if the firms don't qualify under our standard rules for size and long-term records.

Leveraged buyouts and smart computer and communications applications. Those were the big stories of 1988. We are betting they will be the big stories again in 1989. ■

Turnaround candidates

Industry	Company	Survey page
Aerospace and defense	Wyman-Gordon	82
Air transport	Airborne Freight	84
Apparel, shoes and textiles	Phillips-Van Heusen	86
Automotive	GM	90
Banks and thrifts	Mellon Bank	94
Beverages and tobacco	American Brands	100
Chemicals	HB Fuller	103
Coal	Amax	108
Communications media	Turner Broadcasting	111
Computers and electronics	Seagate Technology	114
Conglomerates	Emhart	118
Construction	Morrison Knudsen	120
Consumer products	American Hoist	126
Electrical equipment	General Signal	128
Electrical utilities	Public Service NH	132
Financial services	Lomas Financial	136
Food distributors	Fleming Cos	139
Food processors	Pioneer Hi-Bred Intl	144
Health	Manor Care	150
Heavy equipment	Harnischfeger Industries	156
Industrial and office services	Savin	158
Insurance	Provident Life & Accident	161
Leisure and recreation	Mattel	168
Metals	USX	172
Natural gas	Tenneco	174
Oil	Dresser Industries	178
Packaging	Constar International	182
Paper	Union Camp	184
Retailing	Gap	188
Surface transportation	Avondale Industries	192
Telecommunications	GTE	194

How the numbers are calculated

ırdsticks of ıanagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
›mpany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)

Segment sales and profits

Forbes' 41st Annual Survey of American Industry has expanded to include corporations that have outgrown our requirements for the 200 Best Small Companies in America *(Nov. 14, 1988)* but are too small to be a Forbes 500s company *(Apr. 25, 1988)*. With minimum revenue requirements of $475 million annually for banks and $400 million for other firms, 1,116 corporations are now covered in this report, a record.

In this report a company may be listed in as many as three industry groups. The industry tables show the percentage of sales and profits a company derives from a particular industry. Forbes' definitions may vary from company designations, and numbers in these columns may not total 100%.

Profitability

For this issue return on equity is calculated by taking primary earnings per share and dividing it by common shareholders' equity per share at the beginning of the year. For calculating a company's common shareholders' equity, Forbes assumes the conversion of all convertible preferred stock. The liquidating value of nonconvertible preferred shares is subtracted from total stockholders' equity. When calculating per-share earnings, Forbes includes gains or losses from discontinued operations but excludes extraordinary items.

As a result of recent rulings by the Financial Accounting Standards Board, an unusually large number of corporations are making a variety of adjustments to their income statements these days. Most companies will take charges in fiscal 1988 or 1989, but some firms are restating 1987 data, and others, such as Transco Energy, have restated prior results as far back as 1982. Because firms are handling these adjustments differently, intercompany comparisons may require additional scrutiny.

Time periods

The five-year growth rates shown in this issue for both sales and profits require six years' worth of data. For companies with fiscal years ending in April through December, growth rates are based on the fiscal years through 1987. For companies with fiscal years ending in January through March, the fiscal years through 1988 are used. Growth rates covering a period of less than six years are marked with a footnote. When less than four years' worth of data are available, or data are not comparable, the growth rate is marked NA (not available).

Average return on equity is marked NA if fewer than three annual returns are available. Latest 12-month comparisons are between the most recent four quarters and the same four quarters the previous year.

Net profit margin and sales are measured over the latest 12 months. Debt as a percentage of equity is calculated as of the latest balance sheet.

Growth rates

We use the least-squares method to calculate sales and earnings growth rates. This equation adjusts for sharp fluctuations and comes up with a result that closely reflects the average rate of growth. Example: Over four years a firm's earnings go from 25 cents to $1, then to $2, and finally to $1.75 in the last year. That's a 300% jump from the first to the second year, a 100% jump in the third year and a 12.5% decline in the fourth year. Least-squares says that, on average, earnings grew by 92% (25 cents x 92% x 92% x 92%). The least-squares equation cannot handle negative values. If first- or second-year earnings are negative, Forbes calculates the growth rate for a shorter period, starting at the first positive year. If earnings are negative in any of the last four years, the growth rate is reported as not meaningful (NM).

Definitions

Forbes defines sales as net sales plus other operating revenue. For banks, sales is defined as total interest income plus other income. Sales of insurance companies include income from premiums and annuities as well as net investment income and other income. Net profit margin measures net income as a percentage of net sales, including other operating income. Debt as a percentage of equity is defined as long-term debt, including capitalized leases, divided by total equity (including preferred equity).

Medians for all companies are calculated by listing companies in rank order and selecting the value of the middle company. When there is an even number of companies, the median is obtained by averaging the data on the two middle firms. The all-industry median is calculated by taking the median of 31 individual industry medians.

All companies except those with NA are ranked in calculating an industry median. This means that firms with "not meaningful" results (NM) are counted in the median calculation. Why? Take the telecommunications manufacturers *(p. 194)*. Six companies are in this subindustry but only two have positive five-year earnings growth rates. A median calculated on only the two profitable companies (Northern Telecommunications and Motorola) comes out to 9.3. But such a median indicates that the overall group is showing respectable earnings growth. By counting all six firms in the median calculation the resulting median is NM, which better represents what is going on in this subindustry.

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AEROSPACE AND DEFENSE

For one segment of the business, a spending slowdown starts to bite. For the other sector, the good times keep rolling along.

By Howard Banks

FOR MUCH OF THE REAGAN ERA this was the business be in. But growth in defense spending began to sl two years ago, and by 1988 the long-predicted squee on defense contractors was starting to bite. Thus, sh increases in net profit margin by Lockheed, General Dyna ics, Teledyne and a handful of other contractors were r enough to prevent an overall decline, to 3.9% for the sect

As he prepared to leave office, President Reagan propose 2% increase, in real (inflation-adjusted) terms, in defer spending for fiscal 1990, beginning October 1989. That rate spending would work out to $200 billion less than the D fense Department itself wants to spend over the next fi years. But it's not clear whether President-elect George Bu will agree, especially in light of the Soviet Union's rece attention-grabbing announcement of a plan to cut U.S.S defense efforts unilaterally over the next several years.

Whatever level of spending is finally set, some futu programs, like the advanced tactical fighter and the n Navy attack aircraft, will likely go into slow motion. S could be trimmed to a less elaborate, and therefore l expensive, package. The MX missile may be threatened and may the Midgetman missile. An outside possibility exi that the B-2 Stealth bomber could be delayed because of enormous cost—$555 million per plane in today's dollars.

Inevitably, fewer new programs will be funded. Those t will be awarded are likely to be handed out, not to a single pri contractor, but to "teams." Cases in point: The Navy's n

Winning back the customers

Wyman-Gordon Co., of Worcester, Mass., long America's leading maker of aluminum and titanium forgings for jet engines and aircraft, is surfacing from nearly a decade of decline. It seems odd that a company so centrally positioned in this industry should have missed out on the boom this group has enjoyed in recent years. But increased competition cost it market share.

Now a turnaround is clearly under way. Though the $14 share price, down from a $17 high this year, has yet to reflect it, Wyman-Gordon is in the process of winning back the customers it had earlier lost. Sales are expected to hit $330 million in 1989, up from $270 million last year, yet still far from 1981's peak of $561 million. The company reported a $1.13-per-share loss in 1986 after taking $55 million of a total $80 million restructuring cost and an 80-cent profit in 1987. Profits per share in 1988, boosted by a 47-cent-per-share gain from an accounting change but limited by stepped-up investment spending, are expected to be around 65 cents, and, say analysts, over $1 in 1989.

James Walsh of Wyman-Gordon Michael Carroll

Chiefly responsible for the recovery is James Walsh, president and chief executive since early 1987. His approach: a capital investment drive to cut costs and boost productivity in such items as a new high-purity melting furnace, and a forging technique that makes parts much closer to finished size, thereby using less raw material. Now, taking advantage of the company's minimal debt (6% of equity), Walsh is acquiring small leading materials technology firms.

In October Walsh added Precision Founders of San Leandro, Calif., which makes ultraclose-tolerance and very complex castings. And in November he financed a management buyout of Mojave, Calif.-based Scalec Composites from Beech Aircraft. This company fabricates aircraft parts from plastic composite materials, giving Wyman-Gordon a foothold in this leading new manufacturing technology. "It's only the first phase," says Walsh of a process that should transform Wyman-Gordon from a traditional metals manufacturer into a supplier o ultra-high-technology aerospace materials.

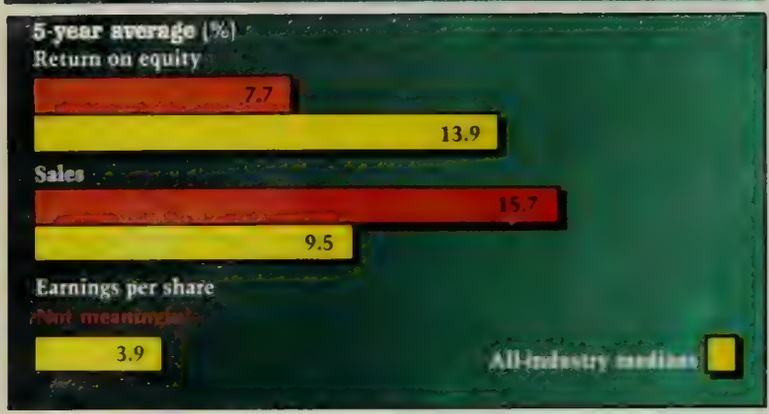
nnaissance aircraft is to be an update of Lockheed's P-3 ame, chosen over Boeing's more expensive 757. But Boeing to share, equipping the P-3 with new electronics, and ably making more money than Lockheed in the process. larly, Allied-Signal is sharing with Raytheon the $4 on electronic system intended to identify friendly aircraft artime and, in peacetime, prevent shootdowns of airlin- as happened in the Persian Gulf.

ontrast all the penny-pinching and program-squeezing on the military side with the boom firmly under way in civil aircraft orders. Boeing's backlog is now a record $53 billion involving over 1,100 airliners. McDonnell Douglas, too, has benefited. Its MD-11 (an update of the DC-10) gained a boost earlier this year when it was ordered by Delta Airlines. The market segment this plane is aimed at—long range but not large enough to justify using Boeing 747s—may, however, not be large enough for McDonnell to recoup its $1 billion investment in this program. ■

rdsticks of nagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
npany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
rospace and defense													
kheed	•/•	1	35.5%	32.1%	41.9%	6.1%	8	15.5%	–1.4%	20	12.5%	78.2%	$10,816
kosh Truck	83/NA	2	34.3	15.1	0.0	4.4	2	35.1	–12.6	4	53.3	–39.7	353
eral Dynamics	•/•	3	25.2	22.7	34.1	3.9	26	8.3	1.0		NM	500.0+	9,413
	36/35	4	24.1	21.4	12.3	13.4	9	14.8	11.4	19	13.3	18.3	429
ision Castparts	86/NA	5	23.5	21.9	32.1	8.0	1	40.3	11.2	5	49.1	–6.9	431
dyne	34/42	6	22.7	23.0	25.9	13.4	38	2.2	3.7	13	17.4	83.1	3,365
ia	60/60	7	22.2	8.1	70.2	3.3	40	1.7	80.0	3	77.6	–77.1	1,617
kwell Intl	78/79	8	21.3	25.3	20.8	6.8	16	11.9	–1.5	14	16.6	33.9	11,946
stems	•/•	9	20.4	16.7	21.7	5.3	19	10.5	12.7	25	6.9	24.7	1,367
ton Thiokol	47/28	10	20.4	15.8	15.6	6.6	7	16.4	18.2	29	3.9	9.5	2,414
cules	37/36	11	19.8	7.5	21.2	5.5	41	1.2	2.9	9	34.5	–76.6	2,731
tin Marietta	75/71	12	19.7	39.0	47.6	6.4	27	7.8	8.6		NM	70.7	5,532
r Industries	•/•	13	19.3	9.5	70.7	3.6	35	3.1	36.7	27	4.9	20.9	907
heon	71/84	14	18.7	26.0	2.1	5.9	29	6.9	7.3	21	12.0	23.4	8,120
throp	•/•	15	18.7	23.7	0.1	3.9	5	20.1	–1.9	8	39.4	225.9	5,837
l	•/•	16	18.6	19.0	127.4	5.5	3	32.9	43.9	11	18.4	25.6	1,489
Corp	54/48	17	18.6	NE	NE	17.0	44	–0.2	–13.4	1	92.3	57.8	1,811
tinghouse	NA/NA	18	18.3	22.0	93.7	7.0	37	2.5	9.4	15	16.1	10.7	11,407
eral Electric	29/35	19	18.1	17.2	19.8	7.4	25	8.3	–2.5	28	4.1	19.8	38,562
an	55/75	20	17.4	16.9	71.1	3.5	21	9.9	12.2	12	18.2	15.9	764
ng	•/•	21	15.7	11.6	4.9	3.5	14	12.4	6.0	23	10.4	11.4	16,689
mmin	•/50	22	15.0	3.1	102.3	0.6	15	12.1	6.5		NM	–75.5	3,510
e Intl	23/27	23	14.6	18.0	42.0	5.2	24	8.7	16.6	17	14.6	30.2	1,131
	32/26	24	14.5[b]	NE	NE	3.0	46	–2.9	6.5	7	42.2	–40.2	3,261
	46/40	25	14.3	19.3	55.2	3.9	32	4.9	5.7		NM	20.6	7,010
puter Sciences	49/NA	26	14.2	14.0	23.8	4.0	18	11.4	8.3	16	14.8	26.6	1,195
n Industries	67/70	27	13.5	15.7	128.5	3.4	45	–2.0	10.1	32	–11.0	22.7	4,864
onnell Douglas	•/•	28	13.3	10.0	39.1	2.2	10	13.5	5.3	26	5.3	–0.8	13,813
er-Hannifin	29/35	29	12.9	13.1	48.0	4.6	13	12.4	20.0	22	11.9	15.6	2,335
ron	53/43	30	12.6	11.4	76.8	3.6	4	24.4	–2.7	10	28.0	–15.7	7,232
lake	23/NA	31	11.6	17.9	29.8	5.8	43	–0.1	10.9	6	42.7	28.4	869
co	31/25	32	11.4	15.4	29.6	5.2	31	5.6	17.8	18	14.6	20.1	1,299
ed Technologies	51/56	33	11.3	15.8	35.2	3.9	34	3.7	4.0	33	–19.1	300.8	17,656
strand	73/78	34	9.9	def	48.2	def	20	10.0	3.6	31	–9.4	P-D	1,435
n-Elmer	26/35	35	9.2	10.6	5.1	6.2	30	6.1	–7.6		NM	D-P	1,182
s Corp	38/74	36	9.0	7.0	14.1	3.3	28	7.1	–3.5	30	–3.9	–18.6	2,042
echnologies	39/•	37	7.9	4.3	40.6	1.7	12	13.0	5.9	2	82.3	–46.4	417
dustries	24/27	38	7.1	17.3	68.6	7.6	39	1.8	–9.2		NM	53.0	3,700
d-Signal	43/43	39	6.3	14.1	62.1	3.7	23	9.8	5.9		NM	–13.3	11,856
ywell	46/38	40	5.8	6.0	32.8	1.9	36	2.5	14.0		NM	D-P	7,198
an-Gordon	•/•	41	5.4	3.0	5.8	3.0	47	–7.1	–19.4		NM	D-P	261
y Industries	31/54	42	4.7	1.4	138.4	1.0	42	0.1	21.1		NM	D-P	351
s Instruments	35/51	43	4.0	20.8	29.0	5.9	33	4.0	13.8		NM	25.9	6,137
	72/66	44	def	11.2	145.3	2.8	11	13.4	–18.1		NM	2.8	426
Shipyards	65/•	45	def	def	253.6	def	49	–14.4	8.2		NM	D-D	373
hild Industries	67/76	46	def	11.7	60.8	2.7	48	–14.4	5.3		NM	D-P	523
	34/30	47	def[b]	NE	NE	def	17	11.6	1.7		NM	D-D	7,640
dale Industries	NA/NA		NA	0.7	26.9	0.7	22	9.9[d]	NA		NA	NA	555
Hughes Electronics	63/32		NA	3.5	4.0	2.3	6	19.5	3.8	24	10.1[c]	20.0	10,761
try medians			**14.5**	**14.1**	**32.8**	**3.9**		**8.3**	**6.0**		**8.5**	**20.3**	
dustry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. rofit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. r-year growth. For further explanation, see page 77.

AIR TRANSPORT



It was a safe and profitable 1988, but with an aging fleet now facing costly overhauls, something will have to give in 1989.

By Howard Banks

A DECADE AFTER THE START of deregulation in this indu try, 1988 was the second straight year of record prof for most U.S. airlines. The fall also saw Americ Airlines overtake United as the largest passenger airline the U.S. The trouble spot remains Eastern Air Lines, Te Air Corp.'s subsidiary. If the courts continue to block Cha man Frank Lorenzo from selling its profitable East Co Shuttle to Donald Trump, Eastern could go into Chapter bankruptcy.

Elsewhere in the business, the economic benefits of me ing—only ten significant jet carriers remain in the U.S.—a the resulting rationalized operations can be seen in improv financial performance. Yield, measured as average fares cents per mile, was up 7% in 1988, faster even than tra growth or increases in capacity or operating expenses. Resu

Small fish, big bites

Airborne Freight Corp., better known as Airborne Express (revenues, $770 million), runs a distant third in the express package business, behind Federal Express (revenues, $3.8 billion) and Emery (revenues, $1.3 billion). As a result, in 1987 and through the first few months of 1988, Airborne's profits were squeezed because of aggressive price discounting by Federal Express. Airborne's stock had slipped from a high of 36 in early 1987, and has since recovered from a low following the October 1987 crash of around 12, to around 19½.

Geoff Manasse

Robert Cline of Airborne

But now it looks like its troubles are behind it. In the first nine months of 1988, Airborne enjoyed 27% earnings growth on a 21% growth in revenues, and the trend seems likely to accelerate in 1989. "Yes, we're reasonably confident about earnings growth," says Robert Cline, chief executive officer.

What gives him confidence? Simply put, aggressive marketing. While bigger rivals are squeezing their margins in pursuit of retail business, Airborne vigorously chases big, national accounts where one signed contract can bring in a flood of business. In March 1987, for example, Cline succeeded in landing a choice, and highly sought after, three-year exclusive contract to serve as overnight express traffic courier for IBM. Similarly, Airborne has just won all of the U.S. government's General Services Administration package business, which will add $15 million to $20 million in annual revenues.

As the smallest of the three leading carriers, Airborne has to keep closer watch than the others on its costs, and Cline has shown himself more than up to the task. He buys cheap secondhand passenger jets and then saves by no fully—and expensively—modifying them into full cargo planes, able to carry large cargo containers, as his rivals do.

Airborne also does a lot of its own maintenance and modifications, aiming for reduced downtime. And rather than go in for bruising competition with international airlines, as FedEx has, Cline pays the foreign airlines to carry his international packages instead. "We have to do things these ways, because we're smaller, haven't th capitalization for any other tack," he says. It's obviousl working.

operating profit for the industry of around $3 billion, up n $2.5 billion in 1987.

'he year ahead should see much the same result, says orge James of consulting firm Airline Economics. This uld be remarkable consistency for this normally highly lical business. And it will help pay for the splurge of new raft that the airlines have ordered, with more to come, to e with what are forecast to be never-ending 5%-plus fic increases.

esides being a profitable year, 1988 was one of the indus- s safest ever. Of some 7 million scheduled flights, only 2 olved fatal accidents—Delta's at Dallas-Fort Worth and ha's over Hawaii, when the roof partly came off a 737. The ines have also learned how to cope with bad publicity over ays, by adding an average of 14 minutes into their sched- s to kid passengers that more of them are arriving on time. igestion remains acute, however, especially at Chicago, where the number of flights has been limited.

The airlines face new trouble in the coming year concerning older jets, the so-called geriatrics, such as earlier 737s and Douglas DC-9s. Increased inspections and some modifications are being called for on these earlier types.

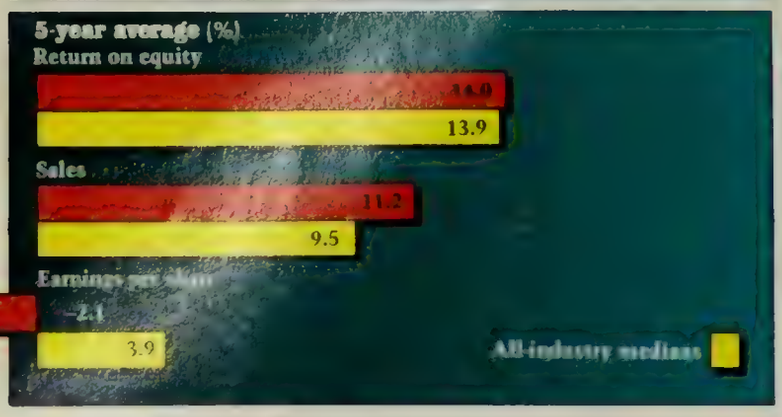
Properly done, such work will keep even the oldest airplane safe, but actually doing the work will add significantly—directly to operating costs, and indirectly through lost flying time. Congress is also growing concerned about the noise of these older types and may propose pensioning them off.

Given a choice, many airlines would probably choose to dump their old planes and simply upgrade to something newer. But with airframe manufacturers already sold out for years to come, airlines may wind up having to hang on to—and fix up—their planes whether they want to or not. That in turn will mean higher costs as well as more pressure to raise fares whenever a chance presents itself. ■

rdsticks of anagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
mpany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
eight													
deral Express	●/●	1	13.2%	15.1%	61.1%	4.5%	1	33.3%	20.5%		NM	D-P	$4,052
rborne Freight	●/●	2	13.0	5.6	131.0	1.0	2	16.6	20.2	1	4.3%	–38.0%	729
nery Air Freight	●/●	3	7.0	def	212.0	def	3	14.2	19.4		NM	D-D	1,314
tston	45/17	4	def	def	17.1	def	5	–8.4	24.1		NM	P-D	1,557
ger International	●/●	5	def[a]	293.7	500.0+	5.2	4	–3.2	13.7		NM	18.6	1,340
dians			**7.0**	**5.6**	**131.0**	**1.0**		**14.2**	**20.2**		**NM**	**–38.0**	
rlines													
aska Air Group	●/●	1	17.3%	11.6%	58.1%	4.0%	3	23.0%	20.0%	3	–5.8%	110.4%	$793
AR	●/●	2	15.5	13.1	91.2	4.3	7	10.7	22.4	4	–6.8[d]	72.5	8,338
Air Group	●/●	3	14.0	8.5	76.0	3.2	6	15.7	126.8	2	5.7	–36.9	5,350
athwest Airlines	●/●	4	11.9	9.8	66.8	6.1	5	19.1	6.4	5	–9.1	155.6	829
lta Air Lines	●/●	5	11.5	16.8	33.0	4.9	9	7.9	22.5		NM	22.6	7,165
VA	●/●	6	7.7	6.6	62.1	1.9	4	20.7	7.3	1	52.5	–14.3	5,446
L	●/●	7	7.3	74.0	146.9	14.8	8	10.2	3.8		NM	500.0+	8,853
nerica West Airlines	●/●	8	def[b]	def	500.0+	def	1	64.0[c]	43.5		NM	D-D	728
xas Air	●/●	9	def[a]	def	500.0+	def	2	43.9	5.5		NM	D-D	8,465
n Am	86/●	10	def	NE	NE	def	10	–2.5	15.4		NM	D-D	4,056
dians			**9.6**	**9.2**	**71.4**	**3.6**		**17.4**	**17.7**		**NM**	**4.1**	
lustry medians			**7.7**	**8.5**	**76.0**	**3.2**		**15.7**	**20.0**		**NM**	**–14.3**	
-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

)% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit.): Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. our-year growth. For further explanation, see page 77.

APPAREL, SHOES AND TEXTILES



Fashion and sticker shock. Together they spelled trouble for this volatile industry.

By Gale Eisenstodt

DESPITE THE 10% SALES GROWTH that FORBES show here, this was a demanding year for apparel manufa turers. In 1988 spending on women's apparel was u only about 4%, after rises of 7% in 1987 and 1986. Who w hurt? For the year, Liz Claiborne's sales grew just 9%, aft last year's 30% gain, and earnings per share were off by abo 9%. The sluggishness in women's apparel depressed Oxfo Industries' bottom line and hurt Leslie Fay through the fir half of 1988.

Why the trouble? You can blame any number of econom indicators—consumer debt, recession fears—but fashion ar sticker shock were key. Female customers were uncerta about hemlines. The debate between long and short left mar confused—and therefore unwilling to buy. High prices con pounded the problem, convincing many women that the didn't need that dress after all.

Those companies that fared best had diversified produ

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Apparel													
Liz Claiborne	•/•	1	54.8%	29.8%	3.5%	9.4%	1	46.7%	12.5%	1	51.9%	–5.1%	$1,13
VF	•/•	2	29.4	18.3	30.1	7.1	2	20.8	5.2	5	11.0	8.2	2,53
Russell	•/•	3	17.3	18.0	24.3	10.0	4	11.5	10.0	4	15.9	14.7	51
Kellwood	•/•	4	16.6	19.3	55.0	4.3	11	–1.9	20.2	2	23.3	16.0	71
Oxford Industries	•/•	5	14.3	def	39.0	def	8	3.7	1.9	9	–14.4	P-D	[illegible]
Phillips-Van Heusen	•/•	6	14.0	54.8	116.4	4.0	10	1.3	30.2	3	19.0	–12.3	[illegible]
Gerber Products	36/18	7	12.5	14.3	41.5	4.7	6	5.2	7.1	8	–13.0	93.4	1,00
Hartmarx	46/80	8	12.5	10.8	40.8	3.3	7	4.3	9.0	7	–1.9	13.1	1,15
Interco	24/ 7	9	9.3	11.5	24.4	4.9	9	3.5	–1.5	6	4.1	7.5	2,98
Fruit of the Loom	•/•		NA	25.8	395.5	5.0	5	10.2	19.3		NA	107.7	98
Leslie Fay Cos	•/•		NA	21.2	90.3	3.7	3	15.4	10.5		NM	39.3	64
Medians			**14.3**	**18.3**	**40.8**	**4.7**		**5.2**	**10.0**		**7.5**	**13.1**	
Shoes													
Reebok International	•/NA	1	200+%[b]	27.7%	1.9%	9.2%	1	254.2%	39.3%	1	200+%	–1.7%	$1,79
NIKE	NA/NA	2	18.6	35.7	7.7	9.3	3	5.4	58.5	2	–8.9	200.0	1,43
US Shoe	34/43	3	12.6	3.1	44.1	0.7	2	11.2	4.6	3	–15.1	–60.4	2,22
Genesco	30/39	4	2.8	12.0	54.1	2.6	4	–8.0	–4.1		NM	–44.0	43
Medians			**15.6**	**19.9**	**25.9**	**5.9**		**8.3**	**21.9**		**–12.0**	**–22.9**	
Textiles													
Delta Woodside Inds	•/•	1	200+%[a]	37.8%	34.6%	5.5%	2	35.2%	16.0%		NM	11.3%	$501
Dixie Yarns	•/•	2	15.9	11.1	39.6	3.8	5	14.9	23.0	1	57.8%	–18.7	61
Guilford Mills	•/•	3	15.3	14.3	52.4	4.6	4	16.5	7.2	2	5.1	14.0	58
West Point-Pepperell	44/29	4	10.4	12.3	122.2	4.3	8	9.8	26.3	4	–2.2	29.4	2,15
Springs Industries	42/19	5	8.0	9.0	46.4	2.5	6	14.8	11.5	3	–0.2	–16.8	1,79
DWG	36/36	6	7.1	28.9	362.6	3.3	1	38.5	–1.0		NM	44.6	1,12
Fieldcrest Cannon	NA/NA	7	5.3	def	149.6	def	3	23.1	0.3		NM	P-D	1,35
United Merchants	50/DP	8	def	def	256.4	def	7	10.3	–14.4		NM	D-D	62
Medians			**9.2**	**11.7**	**87.3**	**3.5**		**15.7**	**9.4**		**NM**	**–2.7**	
Industry medians			**14.0**	**14.3**	**44.1**	**4.3**		**11.2**	**10.0**		**–2.1**	**8.2**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segment deficit, total deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit P-D: Profit to deficit def: Deficit NA: Not available NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth d: Four-year growth For further explanation, see page 77.

Sea change

Phillips-Van Heusen Chairman Lawrence Phillips looks fondly at his Bass loafers when discussing the prospects for an upturn at his company. "When we bought Bass, it had a horrendous track record," says Phillips. Losses of $47 million in 1986 notwithstanding, Phillips saw value in the Bass name and in 1987 paid $79 million for the company. At the same time, Phillips divested his firm of its tailored clothing line and men's specialty retail stores. "This was the least profitable area and showed the lowest growth potential," says he.

In large part, Phillips' moves were designed to fight off a hostile bid from Rosewood Corp., a Dallas investment firm, but the price was high. Including the cost of a 5.2-million-share stock buyback plan to fend off Rosewood, the cost of independence was a more than sixteenfold increase in long-term debt, from $7 million in 1986 to $121 million a year later. Meanwhile, per-share book value declined to $2.48 from $10.87 the previous year.

So how is Phillips making out now? In part by paring inventories and pruning management deadwood in Bass, the company in 1988 was able to live very comfortably with its mountain of debt, with $27 million in net operating income in 1988 and an estimated $35 million in 1989. Says industry analyst Jay Meltzer of Goldman, Sachs & Co.: "Phillips is successfully bringing things around in an unfavorable apparel environment, and that says a lot about management." Meltzer expects earnings per share to increase to $1.80 in 1989, up from $1.30 this year. A lagging stock price suggests others don't see the opportunity apparent in this turnaround.

Jodi Buren

Lawrence Phillips of Phillips-Van Heusen

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Apparel inventories started to come down and sales improved last fall as more popular fashions and lower prices took hold.

lines and varied sources of supply. Ta Kellwood Co., a $700 million manuf turer of men's, women's and childre clothing and home furnishings. T company's broad mix of products ables it to withstand weakness in a one sector. With plants in the U.S., Caribbean and the Far East, Kellwoo able to switch around among supplier take advantage of the falling dollar.

But fickle fashion and volatile curr cies weren't the only woes this indus faced in 1988. Continuing consolidat of department stores has concentra more buying power in fewer hands, abling buyers to force down prices. parel companies also felt pressure fr retailers such as Macy's that manuf ture their own goods under their o private labels.

What to do? Apparel companies fighting back with such marketing vices as the "store within a store." Le Fay, a $660 million women's dress sportswear manufacturer, in 1988 set boutiques in 300 department stores. " realized that by concentrating our m chandise in one area and displayin properly we could do 40% better," s John Pomerantz, chairman of Leslie F Liz Claiborne Inc. (1988 sales, $1.1 lion) took the concept one step furthe opening its own retail outlets.

Many textile companies were ba bruised by the environment, prima because of earlier moves into the heal er industrial fabrics and home furni ings areas. Following the May 1988 quisition of J.P. Stevens by West Po Pepperell for about $1.2 billion, there now three public textile giants in industry: Fieldcrest Cannon, Springs dustries and West Point-Pepperell.

What does the future hold? App inventories started to come down retail sales improved last fall as m popular fashions and lower prices sta to take hold. This bodes well for 19 Acquisitions in the apparel indus have lagged the rapid pace in some ot sectors of the economy, but look for to change as apparel plays catch-up. stay competitive, companies must t advantage of new technological vances. That takes money. As cap spending requirements rise, expect to further consolidation. ■

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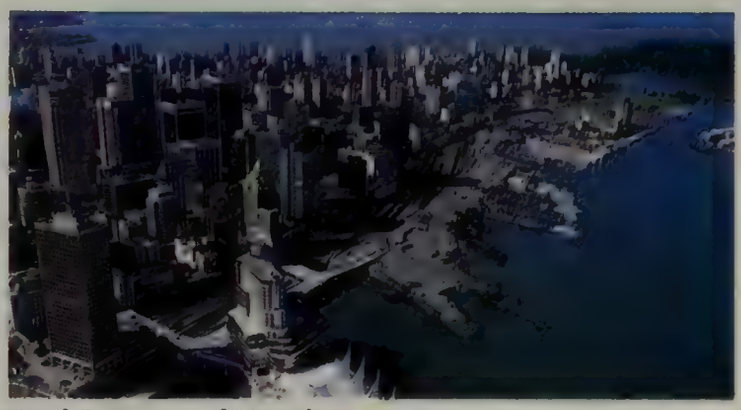

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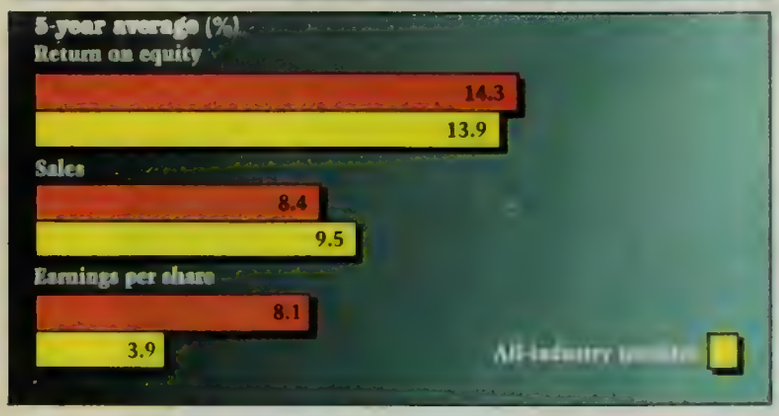

The profits were lush in 1988. Even with some sales slippage, the U.S. companies should do extremely well again in 1989.

By Jerry Flint

IT WASN'T SUPPOSED TO GO ON like this. Certainly Detr would sag in 1988 after five strong years. But a fun thing happened on the way to the poorhouse: The c tomers defied the predictions and went right on buying c and trucks, especially those with "Made in America" lab on them. Customers wanted not just cars but cars that cau their fancy and went fast: Taurus, Beretta, minivans. V- multivalves, superchargers—and U.S. automakers had th aplenty. Japanese-made vehicles continued to sell well, l the weakening dollar is already beginning to curb th growth. As for Detroit, with sales of 15.7 million cars a trucks, a half-million better than 1987, times have rar been better.

The big winner was Ford. Profits in 1988 probably reache record $5.5 billion. "There's a lot of luck in what looks li shrewd thinking at Ford," says Chairman Donald Peters perhaps recalling the early Eighties, when Ford was close broke and came close to killing its now hot-selling Linc Town Car, but was luckily slow with the ax. But today at F there seems to be more shrewd thinking than luck. Two n models, the $30,000 Lincoln Continental and the spo Probe half-breed—half Ford, half Mazda—are examples. B were carefully designed efforts to be best-in-class. Result: t sell-outs.

Chrysler spent the year trying to digest American Mot Management went through another shakeup. "This year l been kind of a tough one for us," says Jerry Greenw Chrysler's vice chairman, "but starting with this fourth qu

The turn signal is on

When it comes to picking a turnaround candidate in the auto industry, it isn't even a contest. Under Don Petersen, Ford has already written one of the great turnarounds of recent times, and Lee Iacocca became famous bringing Chrysler back from the dead. Now it's Roger Smith's and General Motors' turn.

The giant automaker hasn't swung completely around, but the turn signal indicator is blinking. Costs have really been cut. (It took 100 hours to assemble an Eldorado-type car in 1987. It will take 66 hours in 1989.) GM's plunge in sales and market share looks to be leveling off. But the $14 to $15 a share net expected for GM in 1988 may be just a start. Remember: In 1987, GM earned $3.6 billion, or $10.06 a share, despite the fact that it was about breaking even on 75% of its business, its North American Automotive Operations. The much improved 1988 earnings probably included a relatively modest contribution from the car side of NAAO and far healthier profits from GM's truck business. Now figure what could happen if the cost-chopping continues, which seems likely, and GM's hopes for hot new cars like the four-door midsize GM10 models, to be sold by four divisions, pan out: $30 a share? And maybe a P/E of 10 instead of 7? It may not happen, but it's within reach.

Roger Smith of General Motors

GM's executives are up against first-class, foxy competitors marketing handsome cars. But GM, too, has a new generation of leaders coming, people who emerged in an environment of cost-cutting with an emphasis on quality. The old generation, who came up in an era when GM could do no wrong, are fast fading. It's the same company but a whole new spirit.

we look to really better times coming." "Tough" is a bit ın exaggeration. Chrysler is expected to earn maybe a ple of bits under $5 a share, down from $5.90 last year but darned healthy. And the family jewels, the Jeep and ıivan line, continued stronger than the competition.

eneral Motors shared in the good news, as market share sales, which were collapsing a year ago, leveled off. With ıorrhaging from North American Automotive Operations ed, plus big profits pouring in from Europe and costs way down, GM's net income was pushing toward $14 to $15 a share in 1988, compared with $10.06 a share in 1987. And the bulk of GM's new designs are yet to reach the market. If they sell well enough to restore some of GM's lost market share, and if profits from Europe keep pouring in, GM could easily break all profit records in the years just ahead. But even if it doesn't increase its market penetration much from 1988's 36%, GM has cut its costs to the point where it can make a nice profit on greatly reduced market share.

rdsticks of ınagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
mpany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
ıtomobiles and trucks													
rysler	•/•	1	59.4%[b]	14.8%	44.7%	3.1%	2	20.4%	25.6%	1	70.4%	–25.3%	$30,841
ıkosh Truck	•/•	2	34.3	15.1	0.0	4.4	1	35.1	–12.6	2	53.3	–39.7	353
d Motor	•/•	3	30.7	27.7	6.8	6.4	4	13.2	15.1	3	23.3[d]	20.1	79,617
ıaru of America	•/•	4	30.7	def	26.8	def	3	15.6	–11.8		NM	P-D	1,654
ıeral Motors	86/89	5	16.3	12.7	51.8	3.8	6	11.3	6.8	5	14.2	35.5	107,757
car	•/•	6	12.2	20.6	4.6	5.6	5	11.9	30.5	4	19.2	61.2	2,939
·yhound	NA/NA	7	10.0	2.8	86.7	0.9	9	–7.6	31.1	6	–9.2	–84.0	2,923
ck Trucks	76/NA	8	def	1.0	91.8	0.2	7	8.4	10.2		NM	–74.6	2,041
ehauf	52/NA		NA	NE	351.9	def		NA	NA		NA	NA	1,953
vistar Intl	•/•		NA	30.1	22.9	5.5	8	–4.2	14.5		NM	500.0+	3,955
dians			**23.5**	**13.7**	**35.8**	**3.5**		**11.9**	**14.5**		**14.2**	**–25.3**	
ıtomotive parts													
ıdard Products	86/90	1	29.5%	25.7%	10.8%	6.7%	8	16.3%	11.7%	3	38.7%	22.8%	$519
p-on Tools	•/•	2	20.7	24.0	1.6	13.1	9	12.3	13.8	7	16.7	35.6	838
ıuine Parts	68/79	3	18.3	22.7	2.4	6.0	19	5.6	12.9	12	8.1	27.2	2,870
Corp	•/•	4	17.2	27.9	0.0	3.2	18	5.8	11.1	8	15.6	48.8	482
Industries	NA/NA	5	16.7	22.6	43.9	8.4	13	8.9	9.0	5	20.9	41.4	5,512
ɔn	55/65	6	16.7	19.5	58.3	6.0	16	6.9	1.2	9	11.6[d]	8.1	3,402
lin	•/•	7	15.4	10.3	21.6	4.8	6	17.2	17.7	11	8.1	27.3	1,294
in Industries	78/76	8	15.1	2.7	47.5	1.1	3	20.3	–2.5	4	27.5	–76.5	1,351
sco Industries	52/56	9	14.5[a]	13.2	241.4	3.7	2	25.2	26.1	2	45.8[c]	–26.1	1,643
N	40/30	10	14.3	19.3	55.2	3.9	23	4.9	5.7		NM	20.6	7,010
ıson Controls	49/52	11	13.8	13.6	41.9	3.3	5	19.0	15.8	14	3.1	28.6	3,100
	86/NA	12	13.7	11.2	73.4	3.8	7	16.4	16.5	15	0.6	–7.7	854
ıa	79/81	13	12.7	15.9	152.8	2.9	11	10.5	21.4	6	16.9	26.5	4,774
eral-Mogul	80/81	14	12.3	13.8	37.6	4.0	15	7.6	14.6	16	–10.7	500.0+	1,178
caster Colony	41/39	15	10.5	16.0	36.9	4.5	21	5.3	6.6	17	–11.0	13.4	459
ıes Group	NA/NA	16	10.2	16.1	61.0	4.0	26	0.1	9.8	13	7.9[c]	25.3	492
ıaher	48/46	17	9.8	35.8	224.7	5.1	1	146.1	23.4	1	112.4[c]	102.5	738
kes Cos	41/•	18	7.7[a]	0.7	115.5	0.4	14	8.4	–18.5	18	–21.5[d]	–94.1	3,595
nmins Engine	•/•	19	6.4	def	54.7	def	10	11.4	20.5		NM	P-D	3,195
ed-Signal	32/28	20	6.3	14.1	62.1	3.7	12	9.8	5.9		NM	–13.3	11,856
Smith	57/NA	21	5.6	4.7	46.4	1.5	20	5.6	2.5		NM	–38.2	989
e-Picher Inds	40/38	22	5.0	20.4	42.6	5.7	22	5.2	14.3		NM	7.3	749
dy & Harman	29/11	23	4.3	6.1	86.0	1.1	25	2.3	10.4		NM	D-P	650
mpion Spark Plug	•/•	24	4.0	4.0	4.1	1.9	27	0.1	–3.6		NM	–24.1	738
n Group	•/•	25	1.5	def	62.0	def	24	3.4	1.3		NM	D-D	374
k Equipment	28/78	26	def	5.8	49.4	1.7	17	6.5	22.1		NM	D-P	1,219
Hughes Electronics	31/58		NA	3.5	4.0	2.3	4	19.5	3.8	10	10.1[c]	20.0	10,761
ty Corp	28/40		NA	22.8	105.8	3.5	28	–2.2	38.7		NM	D-P	2,170
lians			**12.5**	**13.9**	**48.4**	**3.7**		**8.0**	**11.4**		**1.9**	**21.7**	
ɛreational vehicles													
twood Enterprises	65/82	1	24.1%	16.1%	0.0%	3.6%	3	14.7%	12.5%	2	24.5%	22.3%	$1,470
nebago Industries	•/•	2	18.1	1.8	1.1	0.6	1	20.3	4.6	4	14.6	–85.9	425
chmen Industries	86/•	3	14.9	2.8	6.6	0.5	5	1.0	10.4		NM	64.7	399
ine	34/51	4	7.7	10.0	0.0	4.1	4	2.6	6.2	3	15.0	8.9	335
ey-Davidson	•/•		NA	37.0	130.6	3.5	2	19.9	23.1	1	60.5[d]	49.1	727
ians			**16.5**	**10.0**	**1.1**	**3.5**		**14.7**	**10.4**		**15.0**	**22.3**	

% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. ur-year growth. For further explanation, see page 77.

AUTOMOTIVE

What happens in 1989? Analysts, generally cautious, guess around 15 million units will be sold during the year, against the 15.7 million of 1988. If there is some downturn, Ford is the company best positioned to face it. Nearly a fifth of its cars are built on overtime (which would reduce the pain of layoffs in a downturn), and its new Thunderbird could be 1989's hot car. GM will be dribbling in new models all through the year, which means that most of them won't produce substantial profits until 1990, and Chrysler is eli nating seven models over a year, meaning its sales share drop off.

What makes the prospects look good for the U.S. con nies is this: With the dollar working against them, for manufacturers have had to raise prices to the point wl they may have to absorb most of any sales slippage occurs next year.

Likely to remain popular, meanwhile, are pickups, and 4-wheelers. And coming this year are new items GM's king-of the-hill Corvette ($50,000 and 185mph) Ford's SHO Taurus (143mph for $20,000). With cars lookin good and going so fast, 1989 could turn out to be n buoyant for U.S. companies than even the automakers think. ■

Yardsticks of management performance		Profitability					Growth						Sal
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	late 12 m ($m
Tire and rubber													
Bandag	•/•	1	30.7%	49.9%	5.1%	14.1%	2	7.7%	17.1%	1	19.5%	19.2%	$
Goodyear	86/83	2	15.9	25.1	175.6	4.3	3	1.1	10.0	2	12.5	–7.8	10
Cooper Tire & Rubber	•/•	3	15.1	16.2	27.6	4.9	1	8.4	15.1	3	4.2	24.4	
Medians			15.9	25.1	27.6	4.9		7.7	15.1		12.5	19.2	
Industry medians			14.3	14.4	44.3	3.7		8.4	11.7		8.1	20.1	
All-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

•90% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to pr P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year gro d: Four-year growth. For further explanation, see page 77.

The rise and fall of corporate taxes in Georgia.

Since 1969, Georgia's corporate tax rates haven't gone up one penny. We don't know of another state that can say the same. And how many states do you know of that went to business and asked for guidance in restructuring their tax systems? Georgia did in 1971. The result was a zero-based budget that has allowed us to increase our quality of life every year–without raising corporate taxes.

Yet Georgia is still able to invest a billion dollars over the next three years in a statewide education reform program that is one of the most comprehensive in American history. And we pioneered a one-stop environmental permit process that helps companies get started in just 90 days.

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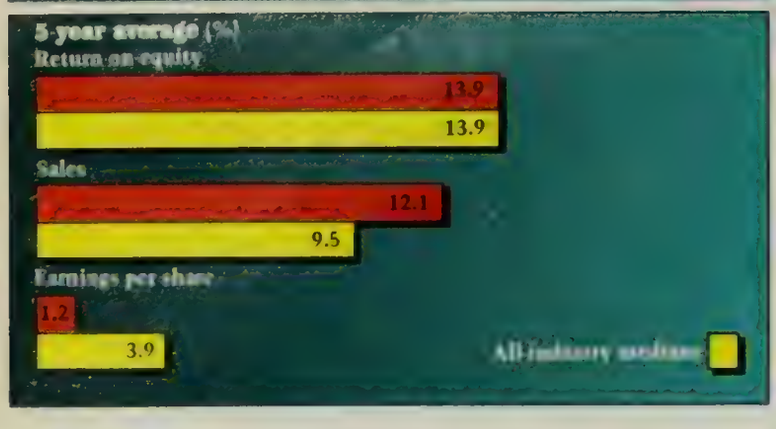
BANKS AND THRIFTS



The profit statements were lovely last year, but how much trouble lurks in the loan portfolios? Plenty.

By Tatiana Pouschine

FOR THE NATION'S BIG money-center banks, which collectively account for 28% of the lending of all banks, earnings rebounded spectacularly after 19[illegible] losses, and stock prices jumped 31%, or roughly three ti[illegible] the rate of gain experienced by the Standard & Poor's [illegible] stock index.

Running a big money-center bank, nevertheless, will [illegible] soon again be a graceful way to grow old. Over 40% o[illegible]

Yardsticks of management performance	Profitability					Growth						Sa[illegible]
	Return on equity					Sales			Earnings per share			
Company	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	late 12 m ($m
Multinational												
JP Morgan & Co	1	14.3%	19.7%	57.4%	13.2%	7	1.2%	12.5%	1	–18.2%	500+%	$7[illegible]
Bankers Trust NY	2	13.9	26.2	73.8	12.3	3	4.9	17.1	3	–51.2	D-P	6[illegible]
Bank of Boston	3	12.6	11.7	84.1	4.0	2	9.6	20.3	2	–33.5	51.6	4[illegible]
Irving Bank	4	6.4	8.1	53.8	3.2	9	–0.4	12.2		NM	500.0+	2[illegible]
Chemical Banking	5	6.3	44.5	78.3	9.3	4	3.6	22.7		NM	D-P	7[illegible]
Chase Manhattan	6	5.9	26.8	153.4	8.1	6	1.6	13.9		NM	D-P	11[illegible]
Citicorp	7	4.1	def	255.7	5.8	1	9.7	13.8		NM	D-D	29[illegible]
Manufacturers Hanover	8	2.9	27.5	276.2	6.9	5	1.7	8.1		NM	D-P	8[illegible]
First Chicago	9	1.3	17.2	51.6	5.9	8	0.1	18.7		NM	D-P	4[illegible]
BankAmerica	10	def	14.6	103.8	4.3	10	–6.3	–5.4		NM	D-P	9[illegible]
Continental Illinois	11	def	def	60.2	def	11	–14.9	8.7		NM	D-D	2[illegible]
Medians		**5.9**	**17.2**	**78.3**	**5.9**		**1.6**	**13.8**		**NM**	**NM**	
Northeast												
State Street Boston	1	19.8%	18.8%	25.4%	10.5%	6	10.9%	20.2%	2	11.9%	9.5%	$[illegible]
Fleet/Norstar Finl	2	17.4	14.6	77.3	8.6	2	18.9	13.0	5	6.5	–7.2	2[illegible]
KeyCorp	3	15.8	12.2	48.2	7.2	1	31.0	23.0	3	10.1	–15.5	1[illegible]
Shawmut National	4	15.7	14.7	45.6	8.2	4	13.2	18.9	4	8.9	26.1	2[illegible]
BayBanks	5	15.6	16.7	9.4	9.5	5	12.3	19.3	1	13.4	16.8	[illegible]
Bank of New England	6	15.2	15.5	32.7	7.3	3	18.6	24.5	6	2.1	18.1	3[illegible]
Bank of New York	7	15.1	17.4	46.7	8.9	8	7.4	14.3	7	0.4	106.0	2[illegible]
Republic New York	8	13.5	12.1	98.3	7.2	7	7.7	28.4	8	–19.4	235.2	1[illegible]
Medians		**15.6**	**15.1**	**46.2**	**8.4**		**12.7**	**19.8**		**7.7**	**17.4**	
Mid-Atlantic												
CoreStates Financial	1	20.4%	16.9%	56.3%	11.2%	6	13.5%	9.7%	5	11.2%	14.9%	$1[illegible]
Sovran Financial	2	18.2	17.9	33.9	10.8	5	14.4	18.0	4	12.9	10.0	2[illegible]
Midlantic	3	17.9	17.2	19.8	11.5	3	15.3	17.2	7	8.8	29.1	1[illegible]
PNC Financial	4	17.3	16.5	15.2	10.0	2	15.7	64.7	9	7.4	0.2	3[illegible]
Crestar Financial	5	16.2	13.4	26.1	7.7	8	12.9	10.2	10	4.1	17.6	[illegible]

●90% or more **DD:** Segment deficit, total deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to pr[illegible] P-D: Profit to deficit def: Deficit NA: Not available NE: Negative equity NM: Not meaningful a: Three-year average. b: Four-year average. c: Three-year gro[illegible] d: Four-year growth. For further explanation, see page 77.

Yardsticks of management performance	Profitability					Growth						Sales
	Return on equity					Sales			Earnings per share			
Company	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
United Jersey Banks	6	16.0%	16.5%	11.3%	11.4%	11	9.8%	30.8%	3	15.0%	8.0%	$964
Dominion Bankshares	7	15.7	15.5	25.3	9.4	4	14.5	23.2	1	18.1	1.4	853
Signet Banking	8	15.1	25.9	38.9	11.4	10	12.1	23.9	11	–2.7	364.3	1,239
Meridian Bancorp	9	15.0	12.0	17.3	8.7	1	19.7	38.2	8	8.8	–26.3	1,042
MNC Financial	10	14.7	17.6	36.0	8.7	7	12.9	26.3	2	15.3	18.3	1,888
First Fidelity Bncp	11	13.5[b]	11.2	33.0	6.5	9	12.1	16.0	12	–15.1[d]	–4.0	2,721
First Maryland Bncp	12	11.9	12.1	50.1	8.3	12	8.8	10.3	6	9.0	17.4	636
Riggs National	13	10.2	7.0	64.3	4.3	14	3.7	15.8	13	–34.6	79.3	531
Mellon Bank	14	def	def	152.1	def	13	7.5	–1.6		NM	D-D	3,181
First Pennsylvania	15	def	15.5	36.6	6.3	15	–2.6	9.1		NM	D-P	574
Medians		**15.1**	**15.5**	**33.9**	**8.7**		**12.9**	**17.2**		**8.8**	**14.9**	
North central												
Old Kent Financial	1	18.8%	17.6%	13.4%	11.3%	5	13.8%	19.1%	2	15.9%	16.2%	$623
First of America Bank	2	17.3	13.9	16.2	10.0	10	10.7	21.5	1	16.4	6.0	853
Banc One	3	16.9	18.5	17.2	12.7	6	13.4	33.0	3	13.6	42.6	2,523
Marshall & Ilsley	4	15.9	16.2	37.1	11.3	7	13.3	14.8	6	10.0	15.5	635
National City	5	15.5[b]	15.1	20.1	8.5	3	17.3	10.8	8	6.6[d]	17.4	2,136
Boatmen's Bancshares	6	15.3	12.2	22.9	9.4	1	32.7	3.8	12	2.8	–1.0	859
Indiana National	7	14.4	13.1	13.6	8.9	8	11.3	11.7	13	1.2	39.1	521
Society	8	14.2	15.1	27.2	10.3	4	17.2	8.5	4	13.0	10.2	940
Huntington Bcshs	9	13.3	13.7	27.7	8.2	9	10.8	14.1	10	4.9	15.0	857
Trustcorp	10	12.9	14.7	19.0	9.9	2	26.8	27.0	9	5.4	33.6	571
FIRST Bancorp	11	12.5	16.3	27.5	10.3	12	8.3	11.1	5	12.2	34.5	2,096
Commerce Bcshs	12	12.4	13.4	18.0	10.3	14	6.4	2.8	11	4.7	25.5	465
First Bank System	13	12.3	11.4	98.4	6.5	13	7.4	–2.0	15	–8.4	160.7	2,407
Comerica	14	12.0	19.4	41.0	10.7	17	5.0	9.2	7	9.3	69.4	1,010
Manufacturers Natl	15	11.3	9.2	13.5	5.2	15	5.6	17.4	16	–16.7	–9.7	885
Mercantile Bancorp	16	9.6	2.8	28.2	1.7	18	3.8	2.4		NM	D-P	672
Michigan National	17	8.4	17.2	7.7	8.9	19	2.7	16.7		NM	34.0	1,011
AmeriTrust	18	8.3	12.0	28.8	8.8	11	9.6	11.8		NM	500.0+	1,015
Centerre Bancorp	19	7.3	7.1	30.5	4.7	22	–3.2	4.3	14	–7.8	35.8	513
First Wisconsin	20	7.2	16.8	33.3	8.7	16	5.2	12.2		NM	D-P	769
Norwest	21	5.7	19.4	168.4	8.4	20	1.6	2.5		NM	D-P	2,400
Northern Trust	22	3.2	6.4	36.0	3.4	21	1.0	18.7		NM	D-P	941
Medians		**12.5**	**14.3**	**27.3**	**8.9**		**8.9**	**11.8**		**3.7**	**34.3**	
Southeast												
First Union	1	23.4%	16.7%	34.3%	10.5%	2	19.1%	3.2%	1	19.6%	1.1%	$2,808
First Wachovia	2	19.0	16.7	12.4	11.4	11	8.3	11.7	7	12.5	15.6	1,948
Barnett Banks	3	18.5	16.9	27.9	8.8	1	23.7	17.9	3	14.7	21.3	2,513
SouthTrust	4	18.5	16.4	35.0	11.1	9	12.9	23.4	4	14.5	9.7	595
SunTrust Banks	5	17.4	18.0	28.6	10.8	8	13.0	11.9	5	13.8	17.8	2,791
Citizens & Southern	6	17.2	17.9	33.2	9.9	7	14.0	12.6	6	12.6	32.4	2,031
FCNB	7	16.3	13.3	25.9	7.4	3	19.1	16.6	11	6.8	–2.9	2,755
South Carolina Natl	8	16.0	15.3	15.3	10.2	4	16.7	11.9	2	16.4	6.4	533
Florida Natl Banks	9	15.9	8.3	25.9	5.1	6	15.0	13.8	10	7.2	54.3	744
AmSouth Bancorp	10	15.3	13.1	25.2	8.5	10	11.2	27.7	8	9.6	–17.1	761
First American	11	14.9	8.9	5.6	6.3	5	15.1	20.1	9	9.0	–30.1	669
First Tennessee Natl	12	14.6	11.9	36.2	6.8	12	7.3	8.0	12	5.7	–13.7	593
Southeast Banking	13	11.9	18.8	35.8	10.2	13	6.6	11.6	13	–4.5	500.0+	1,251
Medians		**16.3**	**16.4**	**27.9**	**9.9**		**14.0**	**12.6**		**12.5**	**9.7**	
South central												
Premier Bancorp	1	6.3%	def	23.7%	def	2	12.2%	–13.7%		NM	D-D	$397
ICorp	2	1.6	def	177.7	def	1	13.6	–7.1		NM	D-D	1,692
Texas American Bcshs	3	def	def	NE	def	3	0.5	–8.5		NM	D-D	482
Medians		**1.6**	**def**	**23.7**	**def**		**12.2**	**–8.5**		**NM**	**NM**	
Western												
Bancorp Hawaii	1	16.9%	20.3%	13.8%	13.1%	3	7.4%	17.6%	2	9.5%	39.4%	$557
Security Pacific	2	13.0	13.3	205.5	5.3	1	11.1	13.1	6	–55.0	116.9	8,145
US Bancorp	3	12.6	12.6	66.3	8.1	2	10.1	27.9	3	8.3	–1.1	1,330
Wells Fargo	4	11.8	20.4	119.8	10.2	4	7.4	7.3	4	–17.8	D-P	4,786
Union Bank	5	9.9	13.4	13.2	7.7	7	4.0	7.9	1	21.5	26.4	615

[a]90% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. [c]D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. [d]Four-year growth. For further explanation, see page 77.

multinational banking now involves doing business for fees or trading profits—investment banking, assisting in the sale of assets, foreign exchange and securities trading—rather than the simpler business of living off interest rate spreads.

The rewards in currency and exchange trading can be huge—as can the losses, of course. At Bankers Trust, for example, a record-breaking $258 million in foreign exchange profits in the last quarter of 1987 turned into $19 million of losses in the first quarter of this year.

For large and small banks 1989 holds at least two signi cant potential dangers: residential real estate and constr tion, which could be hard-hit in the next recession. Allert Smith, an analyst with First Boston, notes that resident loans in the last five years have climbed to 40%, from 34%, all loans. Among big lenders (over $5 billion in assets) w large exposures in construction loans: Riggs National, Sign Bank of New England, Bank of Boston and Wells Fargo.

Some regional banks are already feeling the pinch. Sou

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil
Valley National		6	9.4%	2.8%	50.7%	1.5%	5	6.7%	5.3%		NM	88.6%	$1,1
United Banks of Colo		7	8.8	4.3	16.1	3.3	6	5.6	6.7		NM	D-P	5
First Interstate Bncp		8	6.4	def	156.5	def	8	3.2	11.4		NM	D-D	5,6
First Security		9	5.6	8.3	41.7	6.0	9	–0.3	–3.0	5	–20.5%	151.0	5
Medians			**9.9**	**12.6**	**50.7**	**6.0**		**6.7**	**7.9**		**–20.5**	**88.6**	
Thrift institutions													
CenTrust Savings Bank	•/•	1	150.6%[b]	6.7%	388.4%	4.1%	6	30.7%	28.0%	19	–79.5%[c]	D-P	$9
Western S&L	•/•	2	69.6	1.3	98.1	1.2	16	18.6	14.4	4	37.0[d]	–94.6%	[illegible]
Golden West Finl	•/•	3	39.2	16.4	63.9	9.7	31	11.3	3.8	8	23.8[d]	–23.5	1,3
Columbia S&L Assn	•/•	4	35.8	1.1	90.3	1.2	1	61.9	–2.1	11	17.1	–95.0	1,2
American Continental	69/86	5	34.3	41.2	500.0+	def	10	24.1	–4.8	14	10.6	123.7	6
Homestead Financial	•/•	6	31.8	def	480.3	def	4	44.3	–10.3	10	17.4	P-D	4
Fin Cp Santa Barbara	•/•	7	27.3	5.6	500.0+	0.6	23	15.9	4.9		NM	–68.9	4
Fuqua Industries	33/32	8	25.0	35.0	70.9	12.7	39	3.1	20.6	12	14.3	147.9	9
First Federal Mich	•/•	9	20.8[b]	4.9	33.8	1.7	15	19.8	–8.0	13	14.0[d]	–74.6	1,1
CityFed Financial	•/•	10	18.8	def	159.2	0.2	24	15.6	–12.2	18	–30.0	D-D	1,0
Kinder-Care	NA/NA	11	18.2	10.1	169.6	4.5	5	34.4	64.1	9	19.2	–11.4	7
HF Ahmanson	•/•	12	15.7	10.3	48.6	5.6	35	7.2	20.9	5	30.8[d]	–27.0	3,2
Gt Western Financial	71/•	13	14.9	10.4	55.6	6.6	12	23.4	–28.4	7	27.0[d]	–32.5	3,0
Southwest Gas	29/NA	14	14.8	13.8	116.1	8.0	37	4.7	18.9	15	9.2	16.0	5
Pinnacle West	33/NA	15	13.9	8.2	121.7	13.3	36	4.9	8.2	16	–1.0	–30.4	1,4
CalFed	87/•	16	13.6[b]	11.6	15.9	5.4	22	16.0	14.9	1	74.0	–13.0	2,7
Washington Mutual	•/•	17	13.3[b]	11.0	83.0	6.2	26	14.7	7.0		NM	–57.1	5
Gt Am First Savings	•/•	18	12.5[b]	6.6	134.8	2.8	9	25.4	8.3	3	51.1[d]	–61.0	1,5
Home Federal S&L	•/•	19	12.3[b]	12.4	47.1	7.2	25	15.0	23.5	6	27.1[d]	6.2	1,4
GlenFed	•/•	20	10.4[a]	15.5	54.6	6.3	13	22.4	11.1	2	66.4[c]	23.7	2,4
Gibraltar Financial	•/•	21	8.8	def	171.2	def	19	16.8	44.3		NM	D-D	1,4
American Capital	•/•	22	7.5[b]	def	500.0+	0.5	3	52.9[c]	12.6		NM	P-D	[illegible]
Northeast Savings FA	•/•	23	6.4[b]	def	89.8	def	17	18.0	19.1		NM	P-D	[illegible]
Imperial Corp of Am	•/•	24	5.6	15.0	500.0+	3.6	20	16.2	4.6		NM	–23.7	1,1
Atlantic Financial	•/•	25	4.7[b]	6.4	159.2	1.6	7	28.2	14.9		NM	D-P	[illegible]
Florida Federal S&L	•/•	26	def[b]	def	153.1	def	30	11.9	–8.7		NM	D-D	4
Meritor Financial	•/•	27	def[b]	def	236.2	def	27	14.5	–6.0		NM	D-D	1,0
United Financial	•/•	28	def	NE	NE	def	8	25.4	–21.2		NM	D-D	5
AmeriFirst Bank	•/•		NA	def	129.6	def	40	0.4	4.9		NM	P-D	4
Anchor Savings Bank	•/•		NA	def	40.3	def	11	23.5	4.9		NA	NA	[illegible]
Benj Franklin S&L	•/•		NA	8.7	64.8	2.8	18	3.5[d]	11.8		NM	NA	5
Coast S&L Assn	•/•		NA	11.3	71.0	3.9	18	17.5	29.2		NM	–7.0	1,[illegible]
Commercial Federal	•/•		NA	1.1	69.5	0.3	14	20.0	35.1		NA	–92.0	5
CrossLand Savings FSB	•/•		NA	12.6	43.1	8.0	32	11.3	32.4	17	–2.3[c]	–18.0	1,[illegible]
Dime Savings Bank FSB	•/•		NA	8.1	66.2	5.0	33	10.1	22.1		NM	NA	1,0
Empire of America	•/•		NA	def	284.8	def	21	16.1	8.0		NM	D-D	1,0
Goldome	•/•		NA	def	1.1	def	28	13.9	1.1		NA	NA	1,4
People's Bank	•/•		NA	0.0	0.0	5.7	34	8.2[d]	7.1		NA	NA	5
Standard Fedl Bank	•/•		NA	16.3	0.7	6.8	2	54.5	6.3		NM	NA	8
Talman Home Federal	•/•		NA	8.5	9.7	4.7	41	–6.6	0.4		NA	NA	4
TCF Financial	•/•		NA	def	17.9	def	29	12.9	–0.8		NM	P-D	5
Medians			**14.4**	**6.6**	**83.0**	**2.8**		**16.1**	**8.0**		**–54.8**	**–59.1**	
Industry medians			**13.9**	**12.5**	**41.3**	**6.8**		**12.1**	**12.2**		**1.2**	**15.0**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to pro P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year grow d: Four-year growth. For further explanation, see page 77.

ıtral and northeast regionals showed a decreasing or nega-
e 12-month return on equity during 1988, largely because
real estate problems. Overbuilding of condominiums in
ston and of office space in Connecticut hurt New England
ıders. The Southwest continues to suffer from plunging
l estate prices, caused by the energy collapse.

The time bomb still ticks in the savings and loan situation.
out 500 thrifts are already technically insolvent, represent-
; $300 billion in assets. To bail them out, Congress must raise between $50 billion and $100 billion. Unfortunately, while Congress drags its feet, the thrifts dig themselves in even deeper. Expect some major debates about who will pay: the taxpayer, the healthy thrifts or commercial banks.

Meanwhile, for the banking system, despite the rosy profits, questions remain about the underlying assets. In Texas last year, seemingly sound banks turned out to be insolvent upon closer examination. Are there other First Republic-Banks in the U.S. banking system? One can't be sure. ■

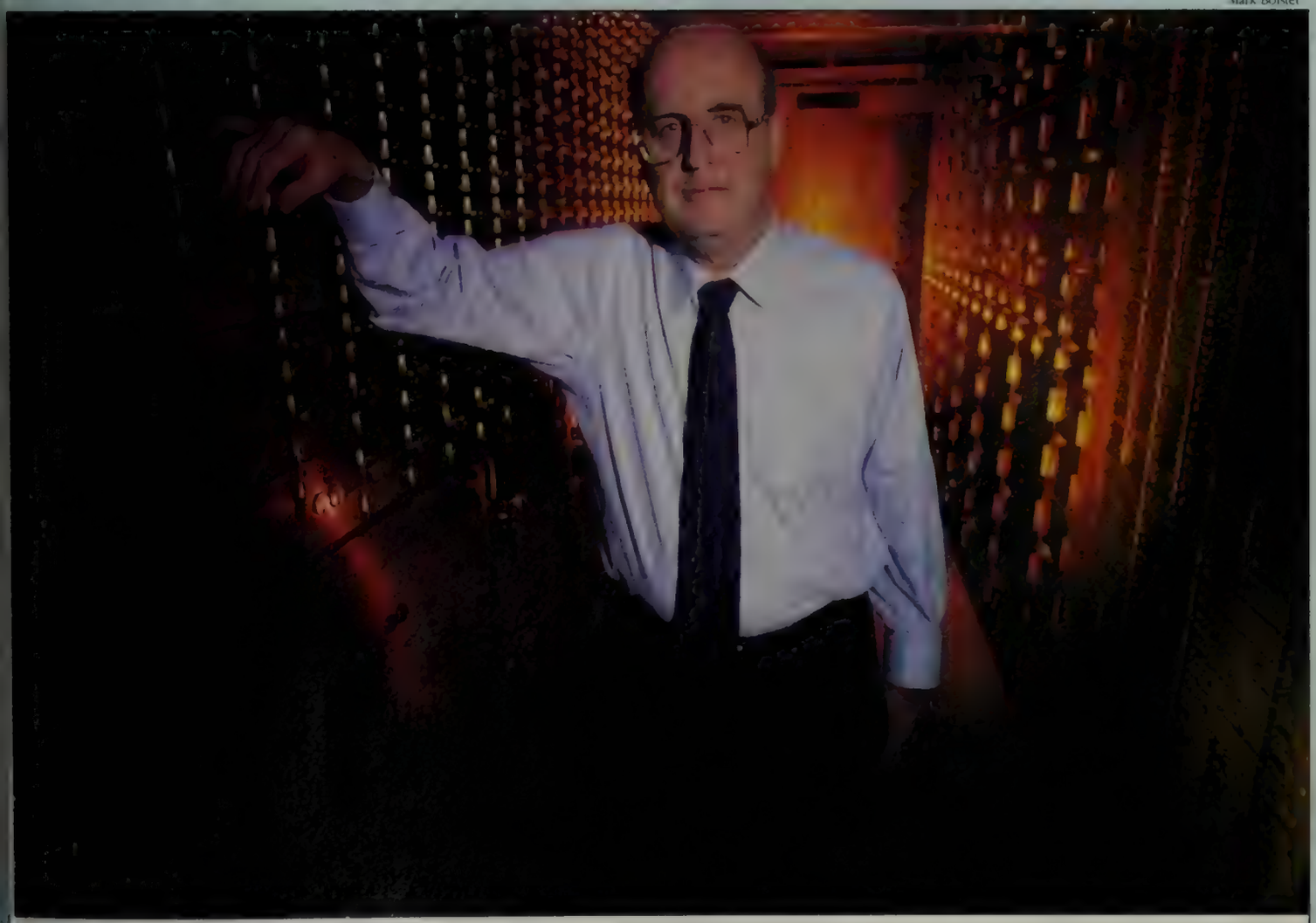
Selling your problem to others

Frank Cahouet, 56, accepted a tough assignment when he agreed to chair Pittsburgh-based Mellon Bank in June 1987. His most urgent problem: a rapidly growing bad loan portfolio that already exceeded 8% of total loans. Only two other banks among Mellon's 24 superregional peers looked worse: Texas-based MCorp and now defunct First RepublicBank.

Cahouet, who learned his banking at Security Pacific, took a novel approach. To rid Mellon's balance sheet of its problem loans fast, Cahouet in effect simply "sold" them. Altogether he marked down almost $1 billion in largely nonperforming real estate and energy loans to $577 million, and used them to create the portfolio of a new bank to be known as Grant Street National Bank. Grant Street will liquidate itself as it collects on or sells the assets acquired from Mellon. Mellon, meanwhile, remains a smaller but healthier institution, with problem loans down to 4.4% of total loans (versus 4.3% average for comparable banks). Now Cahouet plans to focus on Mellon's strengths, among them consumer and middle-market lending, trust work ($60 billion in assets under management), data processing and investment banking.

Investors, angry at an 89% stock dilution that resulted from a recapitalization plan as part of the spinoff, have punished Mellon's stock. Since July the stock fell from over 32 to its recent 25. But Cahouet is confident that 1988 losses ($166 million through the first nine months) will be transformed into the $240 million to $260 million in profits projected by analysts for 1989. Even if he's half right, Mellon is clearly turning around.

Mark Bolster



Mellon Bank Chairman Frank Cahouet

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BEVERAGES AND TOBACCO

By and large, Americans are a sober lot. They greatly prefer soft drinks to beer.

By Edward Giltenan

POWERFUL BRAND NAMES make the companies on th list some of the most impressive cash machines business. In the 12 months ended in September, th chalked up a 19.7% return on equity, almost six percenta points better than all the companies in this annual survey.

Ironic, isn't it? Tobacco companies are punished with ba on smoking in public places, litigation and a relentless b rage of antismoking publicity. And what happens? Th profits stay sky-high, enabling them to diversify against t possibility that they may one day be out of business. Phi Morris, the tobacco industry leader with 39% of the mark

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil
Alcoholic beverages													
Anheuser-Busch Cos	77/•	1	20.5%	24.1%	44.9%	8.0%	2	11.3%	7.8%	1	15.6%	20.2%	$8,7
Brown-Forman	67/77	2	18.8	18.8	41.6	10.8	1	14.6	–3.8	3	3.9	18.3	1,0
Seagram	•/•	3	12.3	13.3	44.9	18.2	3	9.3	24.2	2	12.3	28.7	3,2
Adolph Coors	84/•	4	6.7	4.7	0.0	3.3	4	7.6	9.6	4	–1.3	–0.8	1,4
Medians			15.5	16.1	43.3	9.4		10.3	8.7		8.1	19.2	
Soft drinks													
General Cinema	65/84	1	34.1%	19.7%	133.1%	5.0%	4	3.1%	96.5%	4	8.5%	–10.5%	$2,0
Coca-Cola	81/•	2	25.2	31.4	28.8	12.1	3	5.3	6.2	3	15.1	–0.4	8,3
PepsiCo	36/32	3	22.4	28.5	84.5	5.9	2	7.9	10.3	1	25.0	28.0	12,2
Coca-Cola Enterprises	•/•		NA	6.7	122.0	2.9	1	41.6	12.7	2	17.2	55.3	3,7
Medians			25.2	24.1	103.2	5.4		6.6	11.5		16.1	13.8	
Tobacco													
UST Inc	84/•	1	31.8%	37.4%	6.6%	25.9%	5	11.6%	10.2%	4	16.7%	28.3%	$6
Philip Morris Cos	66/80	2	28.4	33.2	70.9	9.3	1	22.1	8.0	3	20.6	31.2	24,2
Loews	15/34	3	23.9	28.7	36.6	9.2	2	16.6	16.3	2	28.2	90.6	10,1
RJR Nabisco	40/67	4	21.2	22.9	95.3	8.1	4	12.9	5.2	5	11.3	17.4	16,6
Universal	50/71	5	18.7	18.0	23.6	2.4	7	8.2	15.7	6	10.5	2.9	2,5
American Brands	46/75	6	18.6	22.3	89.9	9.2	8	4.9	17.2	8	4.5	38.4	6,6
Dibrell Brothers	66/81	7	17.9	19.0	132.1	2.0	9	–4.2	64.0		NM	D-P	5
Culbro	NA/NA	8	14.1	6.3	67.4	1.1	3	14.7	10.3	1	34.2	–70.2	8
Std Commercial	51/60	9	12.4	7.3	31.7	1.3	6	11.3	21.5	7	6.3	–19.3	8
Medians			18.7	22.3	67.4	8.1		11.6	15.7		11.3	28.3	
Industry medians			19.6	19.7	44.9	8.0		11.3	10.3		12.3	20.2	
All-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

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Capital ideas are a growth industry at GE Capital.

There's no line labeled "Ideas On Hand" in the GE Capital annual report. Nonetheless, our capital ideas are as important an asset to our company as the dollars listed on our balance sheet.

Because over the years, our customers have come to expect a bonus with every GE Capital transaction. They know our capital will be accompanied by our best ideas on how to put that capital to work.

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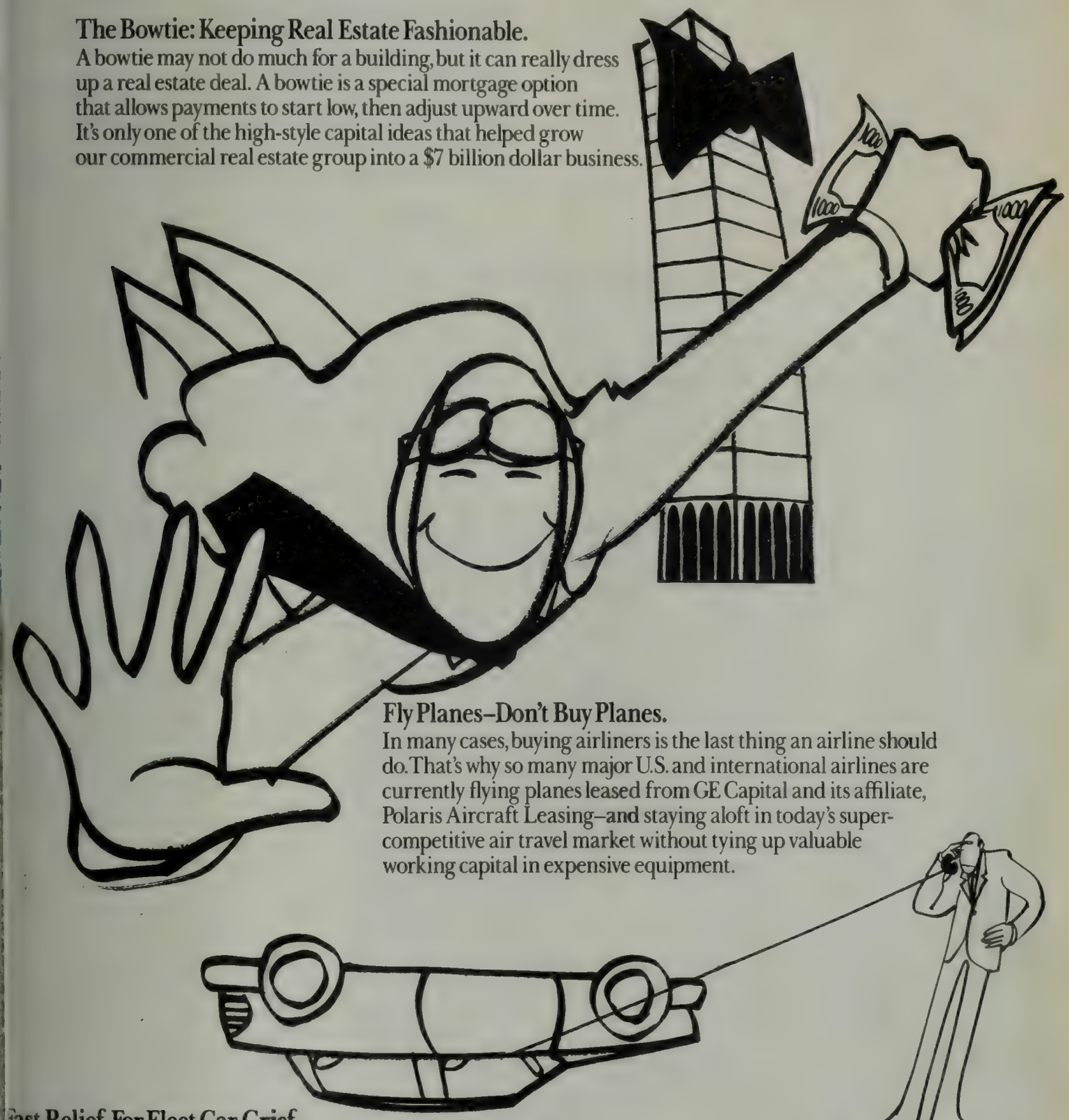
Because at GE Capital, ideas aren't just a sideline. They're a growth industry.

Capital Ideas Grow at GE Capital.



The Bowtie: Keeping Real Estate Fashionable.

A bowtie may not do much for a building, but it can really dress up a real estate deal. A bowtie is a special mortgage option that allows payments to start low, then adjust upward over time. It's only one of the high-style capital ideas that helped grow our commercial real estate group into a $7 billion dollar business.

Fly Planes–Don't Buy Planes.

In many cases, buying airliners is the last thing an airline should do. That's why so many major U.S. and international airlines are currently flying planes leased from GE Capital and its affiliate, Polaris Aircraft Leasing–and staying aloft in today's super-competitive air travel market without tying up valuable working capital in expensive equipment.

Fast Relief For Fleet Car Grief.

GE Capital's fleet management programs, covering over 400,000 vehicles, help our leasing customers focus effort on their own primary business, not time-consuming administrative details. For example, our Accident Program provides one-stop service for accident claims—and, recovers over $3 for every $1 in program fees.

GE Capital

BEVERAGES AND TOBACCO

bought Kraft for $13 billion. The move adds established names like Philadelphia cream cheese and Velveeta cheese spread to a brand name lineup that includes Miller beer and Marlboro cigarettes. Big question: Can the tobacco giant get better results from Kraft than it has from General Foods?

The U.S. is still the most profitable cigarette market in the world, but hope for volume growth lies overseas. American-made cigarettes are thriving in recently opened foreign markets like Japan, Taiwan and Hong Kong. Domestic volume will fall another 3% this year, maybe more if excise taxes rise.

Ex-smokers certainly weren't drowning their withdrawal symptoms in beer. Production last year stayed flat at about 190 million barrels. And American brewers don't have overseas markets to look to for growth because there they face entrenched local competition. Domestic market share, then, is essential. Anheuser-Busch still dominates with a 40% share, its grip as tight as ever.

Last year's hot product was draft beer in a bottle. Philip Morris' Miller brewing unit's Genuine Draft led the way. Adolph Coors renamed its Banquet brand to Coors Original Draft. But the new products seem to merely cannibalize the older products, and volume will probably remain flat in 1989. It could decline if excise taxes are hiked.

Soft drinks clearly remain the favorite drink for Americans; by 1990 they will represent a quarter of all the beverages we consume. The average American now downs about 44 gallons of the stuff each year. Domestic growth in soft drinks last year was 5%, to almost 5 billion cases, sparked by price wars between Coca-Cola and PepsiCo. Together these two giants control 90% of the cola market, which accounts for 65% of the entire soft drink business. With raw material costs on the rise again, there may be less discounting this year. But prices could stay relatively stable, especially if the two soda giants continue to buy bottlers. Thus the big two should have little trouble maintaining profit margins even in the face of rising costs. ■

Break up or build up?

Tell William Alley that American Brands is a popular breakup candidate and he shrugs: "If I spent my time worrying about that, I wouldn't be doing my job." Make no mistake, though: Bill Alley worries a lot about keeping his company independent at a time when similar companies are falling to predators. When Donald Kelly's E-II Holdings made a run at American Brands last winter, Alley counterattacked and took over E-II. He then folded E-II's hardware and office product businesses into existing American Brands divisions, and unloaded the rest of the company on Meshulam Riklis.

But while fending off raiders, Alley has not lost sight of his primary strategy: focusing the company on office products, insurance and spirits. And reviving its moribund tobacco business.

Once the country's top cigarette maker back in the days when unfiltered Lucky Strikes were a major brand, American Brands now holds just 7.2% of the market. But under Alley last year, it increased market share for the first time in recent memory.

Malibu became one of the top low-priced brands. American Lights were a hit in Japan. American Brands' Gallaher subsidiary is now the top cigarette manufacturer in Britain, increasing its market share to 40%. More important, Alley supported his brands by doubling domestic media advertising in the first half of 1988.

Alley, a former insurance salesman, is concentrating on markets he can dominate. For instance, American Brands now sells 5 of the top 20 brands of liquor, including Gilbey's gin, Jim Beam bourbon, Windsor Canadian Supreme Whisky and DeKuyper cordials.

At 56, or 9 times estimated 1989 earnings of about $6.10 a share, the company's stock looks cheap against the market as a whole. This is a company that has plenty of room to improve. Bill Alley may be just the man to get it moving. If he fails, there are still plenty of predators willing to take a shot.

Gary Sigman

William Alley of American Brands

CHEMICALS

is year the chemicals won't show the large ins they did in 1988, but 1989 still looks like another good year.

By Ruth Simon

OR MAKERS OF COMMODITY CHEMICALS, 1988 was the year everything went right. Prices on oil, one of their key raw materials, were lower, while strong demand sted operating rates to 86% of capacity, the highest level ce 1973. Some chemical plants were running flat out at % of capacity, giving producers plenty of room to push ough price increases. Says Chemical Manufacturers Asso- ion economist Allen Lenz: "This was a vintage year." ndustrywide, earnings jumped more than 40%, according eonard Bogner, Prudential-Bache senior chemical analyst. it allowed many chemical makers to top their strong ormances of the previous two years. Standouts included Dow Chemical, whose earnings for the full year should double, and Quantum Chemical, which should post a 260% gain for the year, based on continuing operations. Many specialty makers also posted solid returns.

Not as many big chemical operations went on the block as in 1987, but those that did fetched hefty prices. General Electric paid over $2 billion for Borg-Warner's plastics subsidiary, about 12 times free cash flow. Occidental Petroleum shelled out more than $2 billion in cash and debt assumption for privately owned Cain Chemical, giving dealmaker Gordon Cain an astounding $100 million profit on a mere $2 million initial investment. The spate of new public offerings begun in 1987 also continued in 1988, adding Rexene, Sterling Chemicals and IMC Fertilizer Group to our list.

rdsticks of anagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
mpany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
versified													
lspar	•/•	1	21.1%	21.9%	50.0%	3.9%	1	26.2%	17.5%	6	17.1%	6.6%	$484
rcules	43/56	2	19.8	7.5	21.2	5.5	12	1.2	2.9	2	34.5	–76.6	2,731
Schulman	•/•	3	19.5	22.1	6.6	4.6	3	12.4	28.9	5	18.1	39.8	598
hm & Haas	•/•	4	17.2	21.4	27.7	9.1	8	3.6	15.5	7	15.3	23.4	2,472
IC	47/70	5	14.5[b]	NE	NE	3.0	15	–2.9	6.5	1	42.2	–40.2	3,261
ivar	•/•	6	12.7	15.3	108.6	1.2	2	16.9	23.8	10	–12.1	134.7	1,220
nerican Cyanamid	47/41	7	12.1	16.2	26.5	6.7	11	3.1	10.4	8	12.7	15.6	4,514
du Pont de Nemours	43/68	8	11.6	15.1	20.6	6.6	13	0.0	11.0	9	12.2	27.3	32,249
w Chemical	41/40	9	11.5	36.9	47.1	13.3	10	3.5	27.1	4	22.6	103.6	15,980
ion Carbide	89/•	10	10.5	41.0	205.5	6.5	17	–6.8	20.5		NM	180.4	8,030
antum Chemical	73/75	11	10.3	35.6	165.7	11.1	5	4.4	32.0	3	24.2	83.1	3,122
nsanto	68/•	12	8.6	15.6	36.5	7.1	9	3.5	12.2		NM	54.8	8,258
anwalt	74/74	13	7.4	10.7	41.8	4.8	6	3.7	–5.4		NM	12.9	1,061
n	64/54	14	4.6	13.7	57.4	4.3	14	–0.7	19.3		NM	43.4	2,188
Goodrich	80/•	15	def	17.7	30.8	7.3	16	–6.6	13.1		NM	120.1	2,366
stech Chemical	•/•		NA	41.6	31.0	14.4	4	5.8	22.9		NA	160.2	1,049
nley Manufacturing	77/78		NA	0.0	0.0	7.2	7	3.6	3.5		NA	NA	636
dians			11.6	16.2	31.0	6.6		3.5	15.5		12.7	41.6	

0% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. : Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. our-year growth. For further explanation, see page 77.

Earnings aren't likely to continue to grow at last year's torrid pace, but many chemical makers are betting that the current cycle isn't over yet. "We're taking considerable momentum into the new year," says Dow President Frank Popoff. He believes that the restructuring of the mid-1980s has left chemical makers better positioned to maintain their profitability than they were a decade ago, when earnings gains were short-lived. The health of domestic manufacturers is also a plus: They now account for 50% of industry sales.

Recession fears aside, the biggest threat to chemical m ers' prosperity is their penchant for overbuilding during p ods of strong demand. Dow, Quantum and Phillips Petrol have announced new ethylene plants, and other compa are considering new facilities as well. Not all the plants u consideration will materialize, and those that do aren't li to begin producing for at least three years. But the chem industry could pay for some of its current prosperity w these new operations start up in 1992. ■

Hitting the buzz saw

For St. Paul's H.B. Fuller Co., 1988 was the year the music stopped. "We had 11 or 12 just glorious quarters," says Tony Andersen, president of the $685 million (sales) maker of adhesives, sealants and coatings. "Then we hit the buzz saw of increasing raw material costs." Result: Fuller's stock lost nearly one-third of its value in just one week when it reported lower second-quarter earnings. For the fiscal year ended Nov. 30, earnings fell 14%, to an estimated $2.30 per share. But Fuller's troubles shouldn't last long. Look for earnings to pick up later this year as raw material prices begin to flatten.

Much of Fuller's trouble can be traced to ethylene, which jumped from 18 cents per pound in the fall of 1987 to a recent price of 34 cents per pound. That was good news for many chemical makers, but not Fuller. Polyvinyl alcohol and other ethylene derivatives account for 40% of its raw material costs, and the company had trouble passing higher prices to its customers.

Another problem was Latin America, normally the source of 30% of profits. Fuller bought a Panamanian paint plant in March, one month before President Reagan attempted to oust Panamanian General Manuel Noriega. The plant's output plummeted 75% as Panama's economy unraveled, costing Fuller $1.5 million.

Fuller isn't out of the doghouse yet, but this year looks brighter. "Ethylene costs should start to moderate sometime in late 1989," says Smith Barney chemical analyst James Wilbur, who figures Fuller should earn $2.60 pe share in fiscal 1989. Also helping out will be higher operat ing rates in Panama.

Andersen is optimistc. "We're confident we'll have good year next year," he says, "assuming no other thing happen to the world."

Lavne Kennedy

H.B. Fuller's Tony Andersen

Yardsticks of management performance		Profitability					Growth						Sa
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	lat 12 ($n
Specialized													
Hmont	•/•	1	26.3%[b]	30.6%	4.4%	20.7%	11	8.3%[c]	48.0%	1	28.5%[c]	42.8	$1,
Morton Thiokol	53/72	2	20.4	15.8	15.6	6.6	4	16.4	18.2	16	3.9	9.5	2,
Intl Flavors & Frags	•/•	3	20.1	19.1	0.0	15.1	8	10.5	17.6	11	9.2	22.8	
Nalco Chemical	•/•	4	20.0	22.3	19.2	10.4	19	5.0	20.3	15	3.9	35.1	
Great Lakes Chemical	•/•	5	19.6	23.8	3.6	17.0	2	18.8	30.1	7	16.9	93.2	
Vista Chemical	•/•	6	19.6[a]	72.2	151.1	15.9	16	5.0	28.3		NM	D-P	
Sherwin-Williams	35/56	7	18.7	18.4	14.6	5.3	29	–2.3	10.1	4	18.6	–8.0	1,
Ethyl	45/60	8	17.8	23.6	55.6	11.5	25	–0.2	19.9	2	23.3	24.8	1,
Loctite	•/•	9	17.6	23.3	19.2	10.5	10	8.4	18.9	8	14.7	35.6	
Vulcan Materials	32/17	10	16.8	24.3	10.0	13.4	17	5.0	0.2	6	18.2	36.3	1,
Freeport-McMoRan	57/33	11	16.5	31.9	90.6	16.8	9	9.4[d]	26.6	13	8.4	37.8	1,
Witco	•/•	12	16.0	10.8	43.9	4.1	24	1.0	13.4	9	11.5	–4.5	1,
HB Fuller	•/•	13	15.7	14.4	56.4	3.6	7	10.9	12.6	3	19.5	–0.8	
Dexter	50/42	14	15.3	12.8	31.1	4.6	12	7.3	10.7	14	8.1	–6.8	
GAF	52/82	15	15.0	16.8	83.6	9.4	18	5.0	16.7		NM	10.8	

•90% or more **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to p P-D: Profit to deficit def: Deficit NA: Not available NE: Negative equity NM: Not meaningful a: Three-year average. b: Four-year average. c: Three-year gr d: Four-year growth For further explanation, see page 77

ardsticks of anagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
ompany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
ıbrizol	•/•	16	14.0%	11.3%	8.8%	6.4%	15	5.4%	10.0%	12	9.1%	–13.0%	$1,092
ıgelhard	29/80	17	11.7	7.8	16.2	2.4	22	3.4	–2.8	19	–3.1	–24.1	2,384
eSoto	77/71	18	11.5	3.0	47.7	0.8	21	3.7	–1.0	18	–1.9	–72.6	382
yler	40/55	19	11.2	13.5	334.9	3.2	23	3.3	–25.9	17	2.7	105.9	780
ir Prods & Chems	•/•	20	10.6	18.9	50.1	8.8	14	6.4	13.9	21	–18.4	37.8	2,432
CH Corp	NA/NA	21	10.5	18.6	12.5	6.2	20	4.5	15.5	10	9.7	49.2	515
:rro	•/•	22	10.2	16.9	22.9	4.5	13	7.0	18.7	5	18.2	48.4	981
hittaker	42/40	23	9.4	12.6	19.9	4.9	35	–27.5	13.8		NM	–6.6	480
ıbot	56/•	24	6.4	10.6	52.0	3.7	31	–3.6	17.7		NM	59.9	1,677
ccidental Petroleum	17/34	25	6.1	5.7	117.3	1.8	30	–2.9	9.8	20	–3.2	90.3	18,522
GI	28/DP	26	3.8	14.2	54.4	7.8	34	–10.3	0.8		NM	31.2	423
tl Minerals & Chem	72/61	27	1.8	10.6	34.9	8.3	27	–1.0	–26.6		NM	197.4	1,264
R Grace	62/82	28	1.8	13.5	117.5	3.6	33	–9.1	27.4		NM	D-P	5,439
reat American Mgmt	42/49	29	1.7	4.3	359.4	0.7	1	71.6	65.5		NM	500.0+	1,223
BI Industries	42/•	30	def	3.3	74.9	1.9	5	12.4[d]	1.3		NM	215.4	1,335
A Hanna	59/38	31	def	23.0	36.3	8.0	3	16.8	273.8		NM	D-P	997
L Industries	63/•	32	def	NE	45.7	5.2	32	–7.1	13.8		NM	D-D	1,492
eorgia Gulf	•/•		NA	112.3	16.6	17.8	6	11.2	50.5		NA	164.1	979
IC Fertilizer Group	•/•		NA	NA	65.0	10.2	28	–2.0[d]	21.3		NM	353.7	1,128
:xene	•/•		NA	0.0	82.3	22.4	26	–0.3[d]	NA		NA	NA	683
erling Chemicals	•/•		NA	276.0	223.2	30.6		NA	69.2		NA	212.3	699
edians			12.9	15.8	44.8	7.2		5.0	16.7		2.7	37.8	
dustry medians			11.7	16.0	36.5	6.6		3.7	16.1		3.9	37.8	
l-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

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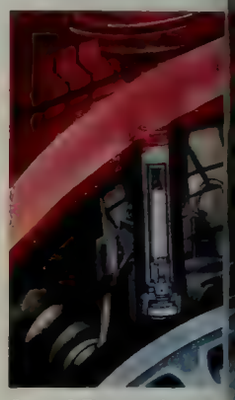

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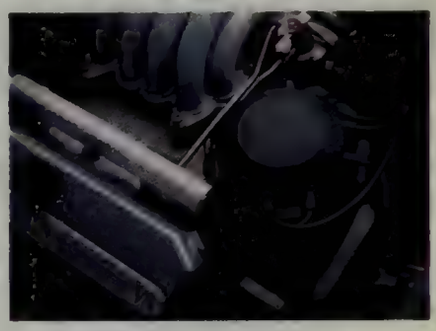

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COAL

Production is up, demand is flat. Is it any wonder that the coal industry is diversifying? Diversification is where it's at.

By Kerry Hannon

FEW COMPANIES SEEM LESS dependent on the strength of the nation's coal industry than the companies on this list. Their coal-related operations in nearly all cases constituted only a fraction of overall revenues, and in most cases amounted to low-profit operations during the year. Where these companies turned profits, the earnings growth came from elsewhere.

Last year U.S. coal production topped 940 million tons, a record. But even record-breaking summer temperatures, which pushed up power consumption by air conditioners, together with an uptick in the steel industry, couldn't create enough demand to lift prices. Result: They remained soft, at around $22 a ton, down about 3% from 1987.

This year will be no better. Electric utilities, which account for nearly 90% of U.S. coal consumption, are expected to reduce their coal use by about 1.4% in 1989, partly because six new nuclear plants, some of them under construction for more than a decade, finally came on line in 1988. With steel mills becoming more efficient, demand for coking coal likely to remain flat even if demand for steel is strong.

It's no surprise, then, that coal companies have turned noncoal businesses for earnings. Last spring Nacco, whi already has Yale, the fork-lift-truck producer, bought app ance maker WearEver-ProctorSilex for $105 million. We Ever is expected to add $1 a share to earnings.

Other companies are also diversifying. Cyprus Miner recently bought Inspiration Resources' U.S. copper ope tions and a Spanish talc (magnesium silicate) producer. A result, cash flow per share was expected to double, to $6. last year and net income to quadruple, to $115 million. T reason? Simple: high metals prices.

Similarly, PacifiCorp, which owns 90% of Nerco, t ninth-largest U.S. coal producer, profited from investme in electric utilities and its growing gold assets, valued around $464 million. Montana Power continues to bene mostly from its gas and electric utility business, servici three-quarters of Montana.

Pittston (1988 estimated revenues, $1.5 billion) was able

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
Coal													
Nacco Industries	55/86	1	22.3%	20.0%	103.8%	7.1%	4	3.2%	14.5%	1	20.5%	16.8%	558
PacifiCorp	21/NA	2	15.9	15.1	93.0	13.1	1	9.0	2.5	2	0.9	6.8	2,22
Montana Power	32/33	3	11.8	9.4	63.6	10.4	2	7.1	10.8	3	–7.1	30.0	72
Westmoreland Coal	88/●	4	def	def	68.0	def	5	0.7	–6.9		NM	P-D	58
Pittston	39/●	5	def	def	17.1	def	7	–8.4	24.1		NM	P-D	1,55
Cyprus Minerals	44/46	6	def[a]	13.0	10.7	10.0	3	6.7	50.7		NM	441.8	1,14
AMAX	20/PD	7	def	22.3	83.1	7.4	6	–0.8	33.3		NM	38.2	3,85
Industry medians			def	13.0	68.0	7.4		3.2	14.5		NM	16.8	
All-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

● 90% or more. DD: Segment deficit, total deficit. DP: Segment deficit, total profit. PD: Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profi P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth [illegible] growth. For further explanation, see page [illegible]

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double its coal profits, to $30 million, last year because of increased demand from the steel industry, but any softening in steel production will simply make the contributions from two fast-growing subsidiaries all the more important. Pittston's air freight business, Burlington Air Express, acquired 1982, now accounts for around 50% of revenues, and Brink armored services, acquired in the early 1960s, has been enjo ing steady growth. Operating earnings should reach $25 m lion this year, up from $1.7 million in 1984.

Finally, Westmoreland, the only pure coal play in th industry, is just nearing the break-even point. Low produ tion costs have helped the firm grow stronger; but with co prices weak, earnings recovery has been slow, and will like remain so. ■

Luck and mettle

Geologist Allen Born, 55, remembers all too clearly June 1985, when he left his position as chairman of Canada's Placer Development Ltd. to take the reins of ailing mining giant Amax Inc. Within months of his arrival, the Connecticut-based company was reporting fiscal 1985 losses of a staggering $621 million on sales of only $1.2 billion. The cause? Plunging prices for molybdenum, an Amax mainstay, as well as continuing losses from a series of disappointing diversification moves by Born's predecessor, Pierre Gousseland.

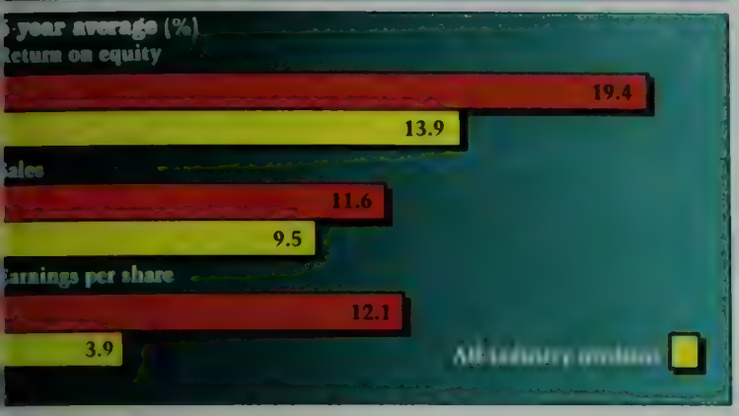
But Born showed his mettle, undertaking a restructuring that in fiscal 1988 will show a dramatic 63.5% rise in profitability over 1987, with earnings of $700 million on sales of $3.9 billion. Gone are bleeding businesses like copper, lead mining, phosphate and nickel refining, and even much of the company's molybdenum business. Remaining are coal, aluminum and gold.

What accounts for the recovery? Partly, Amax is simply benefiting from improving commodities prices, which have been recovering since 1987. But Born also deserves credit for investing wisely to capitalize on this trend. Specifically, his 1987 decision to spend $435 million to acquire full control of Alumax, the country's third-largest aluminum producer, has since given Amax an earnings flow-through that has nearly repaid the investment. Moreover, with aluminum prices now at around double their 1987 levels, Alumax is expected to account for almost 70% of Amax' overall earnings for 1988.

Amax' long-term debt, a towering $2.4 billion shortly after Born took over, has since been cut in half and now stands at $1.1 billion. Cash flow, meanwhile, has quadrupled. Amax' return on equity for the last 12 months, 22.3%, is well above the coal industry average of 13%. Given even moderately higher demand for aluminum, along with a steady stream of earnings from the company's coal business, earnings should grow well into the 1990s.

Allen Born of Amax Larry Barns

COMMUNICATIONS MEDIA



r much of the 1980s this was the place to be. ıt for how much longer?

By Lisa Gubernick

OWNING A TELEVISION NETWORK used to be a license to print money. No longer. Faced with a slow-growing economy and competition coming from everywhere for advertising dollars, the networks in 1988 lost whatever luster may have lingered from earlier times. In 1988 headaches included the writers' strike, disappointing advertising revenues and one ratings flop after another. Says First Boston & Co. media analyst Richard MacDonald, "Even with the Olympics and election spending, business was disappointing, which means the underlying situation is really tough."

With viewership waning (the total network Nielsen share dropped from 47.7 in the 1986-87 season to 43.1 last year), little surprise that the price of network affiliate stations has finally peaked. Through the first nine months of 1988 the average price for a network affiliate station dropped to $23.96 million from $67.55 million in 1987. The reason? "The more valuable VHF stations are not selling at the prices asked," says Bishop Cheen, an analyst with Paul Kagan Associates.

Cable TV prices also seem to have peaked. In August, Middleburg, Va. businessman Jack Kent Cooke announced that he was putting up for sale Cooke CableVision, a 700,000-subscriber network that he had bought for $1,800 per subscriber only a year and a half before. But his asking price—

Turnaround Ted

Barely a year ago it looked as if Ted Turner had had it. The litany of his disasters seemed unending: the unsuccessful fight for CBS, the bungled bid for MGM/UA Communications, his quixotic efforts at international diplomacy through sports programming. Small wonder his Turner Broadcasting System, Inc. had wound up with $1.4 billion in long-term debt, 93% of his total capitalization.

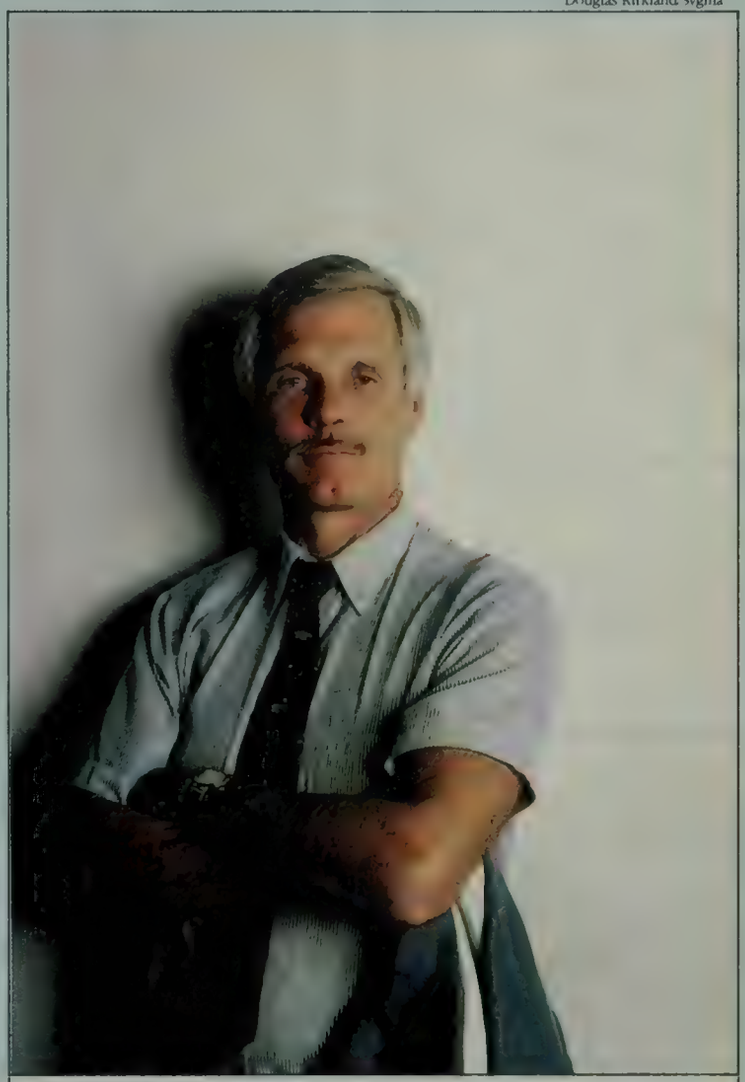
Was Turner finished? FORBES thought not. In September we wrote that, while his onetime absolute control of Turner Broadcasting had been diluted, the enterprise itself was in a powerful position. Events proved us right. Although Turner's outfit is still running in the red, reporting a loss of $2.54 per share for the first three quarters of 1988, he has cut losses by nearly one-third, running ahead of even the most optimistic analysts' projections.

How is he slowing the flow of red ink? Cable News Network and Superstation TBS have helped a lot. Moreover, the much-derided purchase of the MGM library is proving a boon, thanks to domestic and foreign syndication sales. In the third quarter, the syndication and licensing segment of TBS posted a 57% increase in revenue, resulting in a $6 million operating profit, compared with a $7 million loss for the same period the year before.

Just as important, the film library is providing programming for the newly launched Turner Network Television cable network. The basic network offers old movies, old miniseries and original productions. The network was launched with 17 million subscribers and remains far ahead of even the most optimistic forecasts. How is Turner getting those subscribers? Having partners who are cable system operators helps, as does the fact that those operators want new options to lure nonsubscriber homes through which cable already passes.

Dennis Leibowitz, of Donaldson, Lufkin & Jenrette, values the operation at a minimum of $19.50 per share. The stock recently traded around 14. Turner Broadcasting may be a better company than the market realizes.

Douglas Kirkland Sygma



Ted Turner of Turner Broadcasting System, Inc.

COMMUNICATIONS MEDIA

$2,800 per subscriber—has yet to be met.

Print media came under another kind of pressure during the year. The weak dollar helped foreigners such as France's Hachette SA pick up important U.S. properties. Thus Hachette paid $440 million for Grolier, Inc., a Connecticut-based textbook publisher, followed by $712 million for Diamandis Communications, Inc., owner of such magazines as *Woman's Day, Car & Driver* and *Popular Photography*.

Tidings in the newspaper business have been grim. A ten years of steadily climbing profits and revenues, advertising revenues were up around 5% in 1988, as ag 9% the year before, barely enough to cover the 15% inc in newsprint costs.

"Everybody except the Tribune Co. has been hit hard," John Morton, a newspaper analyst with Lynch Jones & R What made Tribune a standout? The opening of a new Bl ingdale's in Chicago. The new department store's ad blitz matched by the competition, helping to push the Chi publisher's revenues up 8% over 1987.

The future? Not rosy, says John Morton. "Next year, says, "is going to be a tough one." ■

Yardsticks of management performance		Profitability					Growth						Sa
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	late 12 ($m
Publishing													
Western Publishing	•/•	1	58.4%[a]	18.9%	0.0%	5.2%	7	12.0%	39.3%	4	30.8%[c]	75.0%	
Affiliated Pubs	•/•	2	41.1	def	48.2	def	4	12.7	14.6	1	56.4	P-D	
Commerce Clearing	57/55	3	37.5	28.9	7.4	9.1	15	9.7	9.0	11	14.1	4.5	
Dun & Bradstreet	62/69	4	34.2	23.6	0.0	11.5	1	20.3	23.3	12	12.8	2.6	
Washington Post	74/62	5	31.3	48.2	19.4	21.8	11	10.7	6.1	5	28.0	86.9	
Dow Jones	81/70	6	30.2	27.7	31.5	14.7	9	11.5	32.9	9	17.1	18.4	
Times Mirror	85/82	7	24.4	19.8	57.0	9.1	20	6.6	6.1	8	18.2	–6.5	
New York Times	•/•	8	23.3	19.5	45.8	9.2	5	12.7	4.8	7	20.7	4.8	
Jostens	22/NA	9	22.3	59.0	52.5	15.0	12	10.5	–3.4	15	10.5	91.2	
Time Inc	60/57	10	21.8	22.6	86.6	6.4	8	11.9	8.7	6	26.4	38.2	
Gannett	82/80	11	21.7	21.9	67.7	10.9	2	15.8	7.2	13	12.1	16.9	
McGraw-Hill	•/•	12	21.3	21.7	0.4	10.0	19	7.6	6.5	17	7.6	20.1	
RR Donnelley & Sons	•/•	13	18.9	17.0	12.3	7.2	6	12.3	15.9	10	16.1	–6.1	
Harcourt Brace	53/59	14	17.4	NE	NE	5.6	3	14.0	26.5	2	47.7	D-P	
Meredith	70/66	15	17.3	10.5	4.7	5.0	21	5.9	19.9	18	6.4	1.9	
Knight-Ridder	88/•	16	17.2	17.7	58.3	7.9	16	9.1	0.2	14	10.6	10.2	
Tribune	63/59	17	17.0	17.4	56.3	8.3	18	8.6	8.2	3	43.4	64.5	
American Greetings	•/•	18	15.2	6.9	52.6	3.0	13	10.3	7.5	20	–5.2	–34.3	
Standard Shares	23/39	19	13.2	10.8	12.7	2.3	17	9.0	16.7	16	7.8	–34.5	
Media General	40/46	20	12.5	14.1	61.4	6.7	14	9.8	6.8	19	–3.1	115.5	
Gulf & Western	23/21	21	9.6	17.6	61.1	7.3	22	–8.2	19.7		NM	30.4	
EW Scripps	71/•		NA	5.7	86.4	2.4	10	11.4[d]	NA	21	–12.0[d]	NA	
Medians			**21.7**	**18.3**	**47.0**	**7.6**		**10.6**	**8.7**		**13.5**	**16.9**	
Broadcasting/cable													
CBS	•/•	1	26.2%	93.6%	42.4%	49.0%	7	–5.1%	–15.4%	1	26.2%	206.7%	$2
Capital Cities/ABC	77/81	2	18.3	15.5	58.7	7.5	1	52.0	15.3	2	15.2	47.3	
Multimedia	55/51	3	15.1[a]	NE	NE	4.3	6	12.3	8.4		NM	278.0	
United Artists	32/49	4	14.1	32.5	500.0+	4.5	5	17.5	28.9	4	–16.2	500.0+	
Tele-Communications	72/87	5	7.8	0.6	500.0+	0.3	2	37.4	50.7	3	–1.4	–90.6	
Turner Broadcasting	59/51		NA	NE	500.0+	def	4	32.3	26.0		NM	D-D	
Viacom	•/81		NA	0.0	282.4	def	3	33.2	17.9		NA	NA	
Medians			**15.1**	**0.6**	**282.4**	**4.3**		**32.3**	**17.9**		**–8.8**	**127.0**	
Media services													
Ogilvy Group	•/•	1	20.1%	17.2%	21.4%	3.9%	2	17.7%	19.3%	2	12.2%	14.1%	
Interpublic Group	•/•	2	19.8	20.0	5.7	5.2	3	11.6	20.2	1	15.8	23.3	
Omnicom Group	•/•	3	10.6[b]	19.2	55.2	4.4	4	9.8[d]	13.8		NM	45.8	
ADVO-System	•/•	4	def[b]	def	0.0	def	1	36.1	13.2		NM	P-D	
Medians			**15.2**	**18.2**	**13.5**	**4.2**		**14.6**	**16.6**		**NM**	**18.7**	
Industry medians			**19.4**	**17.6**	**48.2**	**6.4**		**11.6**	**14.2**		**12.1**	**18.4**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

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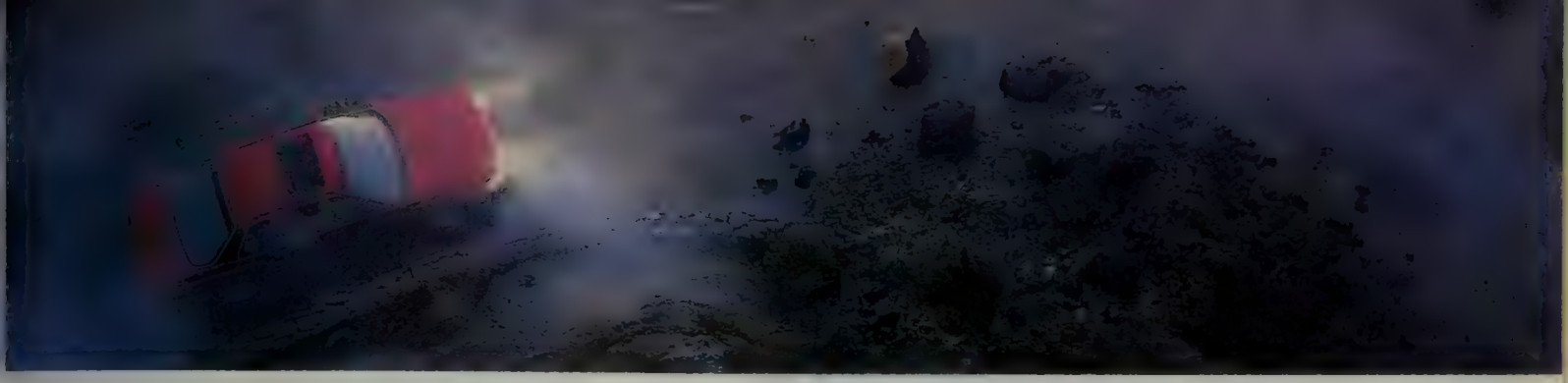

THE ACURA LEGEND. IT HANDLES EMERGENCIES AS WELL AS IT HANDLES THE ROAD.

The fact that a luxury automobile like the Acura Legend Sedan more than meets the demanding driver's every expectation almost goes without saying.

But perhaps a few well-chosen words about its ability to handle the unexpected are in order.

Namely, an Anti-Lock Braking (ALB) system* designed to help the driver retain steering control and stability under extreme braking conditions. Including inclement weather and less-than-ideal road surfaces.

And mounted inside the tilt steering wheel, an airbag Supplemental Restraint System (SRS). Used in conjunction with 3-point seatbelts, it helps protect the driver from injury in the event of the unavoidable.

Of course, your car may never need to handle anything more than the daily commute or the next bend in the road. But should you be thrown an unexpected curve, be confident the Legend Sedan is ready to handle that as well.

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COMPUTERS AND ELECTRONICS

Is the current computer boom petering out? We wouldn't bet on it.

By Marc Beauchamp

AMDAHL, APPLE, Hewlett-Packard and Intel are reporti record profits. But the stocks lag. Intel, for example off nearly 40% since the summer and trades at l than ten times estimated 1989 earnings. People fear the go times won't last much longer. There are ominous sig already. In September the semiconductor industry's ratio new orders to actual shipments, a closely watched baromet fell below 1 for the first time in 22 months. Advanced Mi

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 m ($mil
Computers													
Wyse Technology	•/•	1	52.4%	15.7%	66.2%	4.9%	2	150.4%	64.9%	3	93.5%	5.3%	$5
Sun Microsystems	•/•	2	46.6	22.4	31.0	5.9	1	170.3[d]	95.9	1	120.6[d]	57.3	1,2
Seagate Technology	•/•	3	30.5	2.2	80.1	0.7	4	75.2	35.0	6	40.2	–93.1	1,3
Compaq Computer	•/•	4	29.7[b]	45.6	68.7	11.6	5	72.3[d]	87.0	2	118.4[d]	84.4	1,8
Cray Research	•/•	5	29.5	16.5	16.4	17.4	6	41.7	–11.0	5	51.5	–24.3	5
Intergraph	•/•	6	27.7	15.4	0.5	11.2	8	33.0	29.4	7	32.1	36.0	7
Apollo Computer	•/•	7	25.6	4.1	49.3	1.5	3	88.3	23.6		NM	–43.5	6
Apple Computer	•/•	8	22.9	46.5	0.0	9.8	9	32.3	53.0	8	23.9	86.7	4,0
IBM	•/•	9	22.1	13.7	13.5	9.2	21	9.2	6.8	16	1.1	16.5	56,7
SCI Systems	•/•	10	17.6	13.9	138.2	2.4	7	41.4	47.2	9	23.5	18.8	8
Reynolds & Reynolds	41/36	11	17.3	9.7	51.1	3.0	13	19.4	6.6	11	20.0	–12.0	6
Hewlett-Packard	78/NA	12	16.5	17.2	1.5	8.3	17	13.8	21.5	14	8.0	34.4	9,8
Prime Computer	•/•	13	16.1	9.6	107.2	3.4	16	17.6	54.7	15	7.3	–13.7	1,4
NCR	90/NA	14	15.8	20.4	4.7	7.5	20	9.6	11.3	13	13.2	28.0	6,0
Carlisle Cos	40/ 8	15	13.7	12.6	13.6	4.1	23	6.2	7.4	18	–5.4	27.7	5
Tandem Computers	•/•	16	13.1	12.4	6.8	7.2	10	25.6	27.0	10	21.8	–11.1	1,5
Amdahl	•/•	17	12.3	25.5	10.1	11.5	11	20.9	28.0	4	51.8	57.4	1,7
Digital Equipment	•/•	18	12.1	17.5	1.7	10.6	12	19.8	20.3	12	19.8	4.2	11,8
Wang Laboratories	•/•	19	9.2	5.3	31.8	2.7	14	19.3	5.7		NM	D-P	3,0
Harris Corp	28/DP	20	9.0	7.0	14.1	3.3	22	7.1	–3.5	17	–3.9	–18.6	2,0
Unisys	•/•	21	8.7	15.8	63.4	6.9	15	18.7	4.0		NM	500.0+	9,8
Zenith Electronics	54/NA	22	4.9	def	66.7	def	18	12.6	11.3		NM	D-D	2,5
Data General	•/•	23	2.5	def	10.8	def	19	10.9	7.1		NM	D-D	1,5
Control Data	•/•	24	def	2.4	34.5	0.7	25	–0.2	8.4		NM	D-P	3,0
Datapoint	•/•	25	def	def	44.9	1.3	27	–11.9	6.0		NM	D-D	3
Storage Technology	•/•	26	def[a]	8.8	136.5	2.7	26	–7.5	10.6		NM	–50.0	8
Atari	74/•		NA	18.6	58.3	4.0		NA	147.6		NA	–19.4	3
MAI Basic Four	•/•		NA	30.3	48.6	5.8	24	4.1	31.1		NM	6.6	4
Medians			**15.9**	**13.8**	**33.2**	**4.5**		**19.3**	**20.9**		**8.0**	**6.0**	

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Driven down

Wall Street has battered few high-tech companies as badly as Seagate Technology, Inc. (fiscal 1988 sales, $1.3 billion). Eighteen months ago the company's shares traded in the low 40s. Today, however, they fetch around $8 per share.

Recession fears are only partly to blame. A bigger cause was mistimed moves by Seagate's 57-year-old founder and chairman, Alan Shugart. One of the fathers of the 5¼-inch hard disk drive, Shugart founded Seagate in 1979 after a career with Memorex and IBM. In the mid-1980s he smartly moved disk drive production to Asia to cut costs. But a recent $283 million capital spending program, mostly for expansion of capacity in Singapore and Thailand, was ill-timed. As the PC market has slowed, Seagate's inventory has nearly doubled, to $313 million worth of unsold drives and components. Meanwhile, to pay for the expansion, Seagate's long-term debt zoomed from $15 million in fiscal 1986 to more than $300 million. Moreover, Shugart was slow making the change from 5¼-inch drives to the 3½-inch drive, which is now rapidly becoming the industry standard. He was also overly dependent on IBM, which is now making its own drives.

Such missteps explain why Seagate's net income for fiscal 1988, at $77 million, was down 50% from year-earlier levels. Analysts now think the company will lose $30 million in the year ending June 30.

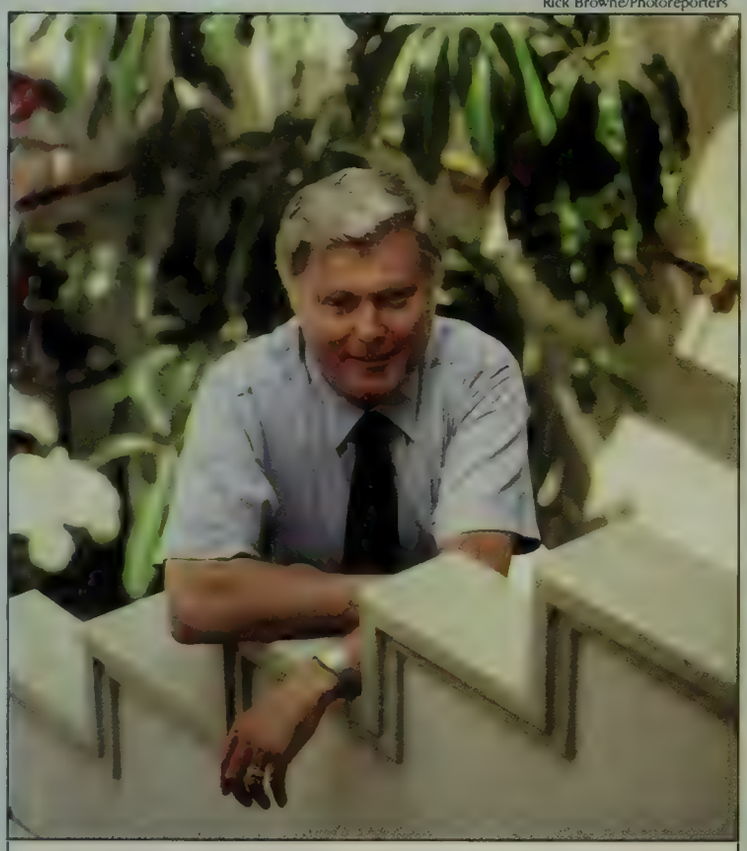
But Shugart has moved quickly. Since August he has laid off nearly 2,200 employees, cut production in Singapore by about one-third, as well as written off inventory.

This year Shugart will flesh out his new line of 3½-inch drives with offerings at both the high and low ends. He has won big new contracts from Apple and, reportedly, IBM. Balance sheet ratios will improve as expenses fall.

There is risk, of course. The 3½-inch market will doubtless be as crowded as the 5¼-inch was. Still, says David Claridge, Hambrecht & Quist's senior technology analyst, "Don't count Seagate out."

Shugart himself is not despairing: He recently bought 100,000 Seagate shares on the open market, his first purchase in four years.

Rick Browne/Photoreporters



Alan Shugart of Seagate Technology

Yardsticks of management performance

Company	% in —segment— sales/profits	Profitability: Return on equity rank	5-year average	latest 12 months	debt as % of equity	net profit margin	Growth: Sales rank	5-year average	latest 12 months	Earnings per share rank	5-year average	latest 12 months	Sales latest 12 mos ($mil)
Electronic equipment													
Mark IV Industries	44/46	1	36.0%	23.5%	410.1%	5.0%	2	86.3%	33.2%	2	61.2%	27.0%	$443
Molex	•/•	2	34.5	20.4	1.6	11.8	4	18.2	30.2	4	13.5	37.0	529
EG&G	•/•	3	27.0	22.3	4.7	4.6	8	8.8	8.8	9	6.2	14.7	1,309
Premier Industrial	62/61	4	20.3	24.0	2.2	12.2	9	8.0	15.6	8	9.0	29.7	548
AMP	•/•	5	19.6	22.5	5.2	11.7	5	11.3	19.0	7	9.2	34.9	2,608
Thomas & Betts	•/•	6	17.1	19.7	13.0	11.4	7	10.0	22.1	5	12.3	24.0	497
Eaton	45/35	7	16.7	19.5	58.3	6.0	10	6.9	1.2	6	11.6[d]	8.1	3,402
Western Digital	•/•	8	16.4	18.0	43.3	5.0	3	72.1	70.9		NM	–16.8	875
Tyler	43/17	9	11.2	13.5	334.9	3.2	15	3.3	–25.9	10	2.7	105.9	780
Corning Glass Works	25/24	10	10.9	19.3	29.4	14.1	13	5.4	6.9	3	18.7	90.5	2,118
Danaher	23/31	11	9.8	35.8	224.7	5.1	1	146.1	23.4	1	112.4[c]	102.5	738
Tektronix	•/•	12	9.5	def	46.1	def	14	3.6	1.6	11	–9.4	P-D	1,413
Perkin-Elmer	58/46	13	9.2	10.6	5.1	6.2	12	6.1	–7.6		NM	D-P	1,182
General Signal	22/36	14	9.0	2.8	10.2	1.5	19	–0.1	10.5	12	–9.8	–60.3	1,719

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COMPUTERS AND ELECTRONICS

Devices, which was slow to recover from the 1984-85 chip debacle, recently laid off 2,400 people, or 15% of its work force. Then Intel conceded that it has been too bullish on the market for its new microprocessor, the 80386. National Semiconductor is expecting a "significant operating loss" in the second quarter, which ended Nov. 27.

The industry is also plagued by uncertainties regarding the so-called standards issue. Today someone buying a personal computer, say, has to decide whether to go with the new IBM OS/2, the old MS-DOS operating system or Apple's standard or to buy a machine that can run Unix. Buyers of mainframe and minicomputers face similar dilemmas.

Early in the year a shortage of powerful new memory chips, the 1-megabit DRAMS, slowed production lines at Apple, Compaq and other makers of computers and peripherals. But the shortage was good news for at least one American company, Texas Instruments, which was minting money making the chips at its Miho, Japan facility.

However, come the next recession, the industry may prove to be in better shape to weather it than many suppose. Japanese and Korean competitors have driven the lesson home to Americans that they must watch costs carefully. The industry's inventories are leaner and cash balances higher than they were going into the last downturn.

What might also help cushion any serious fall in demand is all the new products in the pipeline. Intel's 386 chip is still the heart of IBM's new PS/2 personal computer line. Motorola's new 68030 microprocessor is a hit in Apple's Macintosh IIX, and Steven Jobs has put it in his NeXT computer. Even now Texas Instruments is sending out samples of its 4-megabit memory chip.

In short, the market could well be too bearish on high-tech stocks. In the past, technology's long-term promise was often lost on Wall Street when the short term looked bleak. We are, after all, still in the early years of the computer age. ■

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Bell Industries	63/68	15	8.0%	10.8%	16.2%	2.8%	6	10.9%	12.9%	13	–21.9%	190.1%	$433
Varian Associates	80/68	16	7.8	6.4	7.8	2.4	11	6.7	19.1		NM	29.6	1,171
Honeywell	27/39	17	5.8	6.0	32.8	1.9	16	2.5	14.0		NM	D-P	7,198
General Instrument	66/87	18	def	15.0	29.7	6.8	18	0.6	17.1		NM	D-P	1,207
Sprague Technologies	74/NA	19	def	4.2	13.9	2.7	17	1.1	12.2		NM	D-P	492
Medians			**10.9**	**18.0**	**16.2**	**5.0**		**6.9**	**14.0**		**2.7**	**34.9**	
Semiconductors													
Marshall Industries	60/NA	1	20.4%	22.0%	36.6%	4.4%	1	20.1%	51.4%	1	5.2%[d]	134.0%	$463
Motorola	32/30	2	11.2	14.1	10.6	5.4	4	11.4	21.8	2	–1.2	56.5	7,889
Avnet	77/79	3	8.4	7.6	31.4	2.8	6	6.3	15.5	3	–21.7	79.0	1,868
Advanced Micro	•/•	4	8.0	6.3	19.2	4.5	2	14.4	22.3		NM	D-P	1,140
Intel	•/•	5	7.0	31.8	23.1	14.3	3	11.9	60.9		NM	429.4	2,720
M/A-Com	NA/NA	6	4.3	7.6	45.8	4.3	9	–4.7	–2.7		NM	D-P	424
Texas Instruments	43/83	7	4.0	20.8	29.0	5.9	7	4.0	13.8		NM	25.9	6,137
Natl Semiconductor	57/64	8	def	0.9	18.5	0.7	5	9.9	38.1		NM	D-P	2,602
Arrow Electronics	•/•	9	def	def	188.9	1.2	8	3.3	64.7		NM	D-D	908
Medians			**7.0**	**7.6**	**29.0**	**4.4**		**9.9**	**22.3**		**NM**	**134.0**	
Industry medians			**11.6**	**14.0**	**29.5**	**4.7**		**10.9**	**18.1**		**–1.2**	**28.8**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

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Are you finding it tough to get your banker to move on a corporate credit deal?

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You shouldn't have to move mountains to get your bank to respond to a corporate credit request.

More specifically, you shouldn't have to move a calling officer, a team leader, a staff credit officer and a division executive, much less a multitude of loan committees.

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THE BANK OF NEW YORK

CONGLOMERATES

The remodeled winners are doing well, while the takeover plays have all but disappeared.

By Laura Jereski

COMPANIES ARE CLASSIFIED as conglomerates if they have a strong presence in four or more industries, whether because of internal diversification, like Minnesota Mining, or acquisitions, like ITT. These companies have in common only their diversification, the strategy that shapes them. Conglomerates like Household International that have since refocused don't make this list anymore. The ranks have also been trimmed by acquisitions and leveraged buyouts: Gone are Jim Walter, Insilco, Amfac and Pullma

Does that mean these highly diversified companies a good takeover bets? Probably not. The winners successfu remake themselves on their own. Take IC Industries. Unc chief executive Karl Bays, the company, renamed Whitm Corp., has lines ranging from Mexican foods to Midas au repair shops, and last year spent $180 million in capi investment. At a recent price of around 32 a share, and projected P/E of 17, the company looks fully valued.

Or take GATX, a former railroad supply company, whi

Yardsticks of management performance	Profitability					Growth						Sale
	Return on equity					Sales			Earnings per share			
Company	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
Conglomerates												
Jepson	1	94.4%[a]	19.3%	180.8%	2.3%	1	140.1%[d]	9.5%	1	53.7%[c]	–35.0%	$56
Teledyne	2	22.7	23.0	25.9	13.4	11	2.2	3.7	4	17.4	83.1	3,36
Minn Mining & Mfg	3	19.3	21.7	7.5	10.6	8	7.1	13.2	7	7.3	24.3	10,37
Raytheon	4	18.7	26.0	2.1	5.9	9	6.9	7.3	6	12.0	23.4	8,12
American Brands	5	18.6	22.3	89.9	9.2	10	4.9	17.2	10	4.5	38.4	6,64
Berkshire Hathaway	6	17.4	12.1	10.9	15.1	2	41.9	–1.7	2	36.7	68.4	2,28
Dover	7	17.3	20.9	3.4	7.4	5	9.9	23.6	9	4.9	39.0	1,88
Figgie Intl	8	14.6	18.0	42.0	5.2	6	8.7	16.6	5	14.6	30.2	1,13
Emhart	9	12.7	14.2	70.9	4.4	7	7.2	13.9		NM	18.9	2,70
Textron	10	12.6	11.4	76.8	3.6	4	24.4	–2.7	3	28.0	–15.7	7,23
Standex International	11	12.6	9.0	31.2	3.3	12	2.0	4.7	8	4.9	–15.4	43
ITT	12	9.2	13.8	29.4	5.2	15	–3.0	11.2	11	2.8	44.7	20,68
DWG	13	7.1	28.9	362.6	3.3	3	38.5	–1.0		NM	44.6	1,12
IC Industries	14	7.1	17.3	68.6	7.6	13	1.8	–9.2		NM	53.0	3,70
Penn Central	15	5.2	4.6	10.2	5.1	16	–11.3	–7.8		NM	–31.7	1,49
Tenneco	16	3.2	0.5	146.2	0.4	14	–0.1	–5.8		NM	D-P	13,60
GATX	17	0.3	19.6	500.0+	8.3	17	–12.5	5.0		NM	34.2	55
Industry medians		**12.7**	**18.0**	**42.0**	**5.2**		**6.9**	**5.0**		**4.9**	**34.2**	
All-industry medians		**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segment deficit, total deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit P-D: Profit to deficit. def: Deficit. NA: Not available NE: Negative equity. NM: Not meaningful a: Three-year average. b: Four-year average. c: Three-year growth d: Four-year growth For further explanation, see page 77

Peter Scott of Emhart

Joseph Kugielsky

Makeover by invitation

In the three years since he became chief executive, Peter Scott has transformed Emhart, the Farmington, Conn.-based conglomerate, from an old-fashioned manufacturer into a $2.9 billion (estimated 1988 sales) high-tech and consumer products company. Scott has an affinity for high tech. Before joining Emhart, he was one of Harry Gray's top men at United Technologies. Before that he started two electronics businesses that he sold to Dresser and NCR.

That talent for building companies earned Scott an invitation in 1985 to make over Emhart. "The board didn't want a caretaker," he says. By 1990, Scott predicts, the older industrial divisions making timers, capacitors and the like will bring in only 43% of revenues, down from 64% last year. The biggest part of the business will be in garden sprinklers and golf club shafts, as well as technology consulting and software services for the government.

Earnings, which slid to a $10 million loss two years ago, may hit $145 million this year, or $2.35 per share. Return on equity has rebounded to over 14%. But Wall Street may not have fully recognized Scott's achievement. The stock is trading at about a 10% discount to the market, at a multiple of about 11 times 1988 earnings. Here's a company that has changed its nature, but whose image hasn't quite caught up.

aught the resurgence in basic industry just right. GATX had lready dumped its railroad manufacturing business to con-entrate on storage tank, ship and, more recently, airplane easing, when takeover attempts forced it to cut costs. Thanks to the booming chemical business, the company's ransportation equipment is at 93% of capacity, compared vith 88% a year ago, and tank storage terminals are nearly ull. Thus, 1988 per-share earnings ought to hit $5.25, versus 3.64 in 1987. But look out: There's $1.5 billion of debt on GATX' balance sheet, covered by $150 million of operating ash flow, according to Burton Strauss of Shearson. That's one too thick a shield if the economy weakens.

Even so, some stocks in this group still look cheap. Take Dover Corp., which sells everything from semiconductor equipment to elevators. The stock dipped in midyear when semiconductors slumped, as investors became pessimistic about Dover's subsidiary, a semiconductor equipment maker. Last year that business brought in about $45 million of Dover's $325 million operating income, and this year won't look better. That's why the stock slinks along at around 28, down from a high last year of 36⅝.

"You have to consider a company as well managed as Dover at that price," says Jack Kelly of Goldman, Sachs. In spite of the lackluster semiconductor equipment business, Dover's return on equity will be 20%, well above the industry's average of 12.7%. ■

CONSTRUCTION

With too many office buildings, too many apartments and rising mortgage rates, the construction business does not face a happy 1989.

By Jack Willoughby

WITH THE FEDERAL RESERVE in an inflation-fighting mode, interest rates are inching up again, and that means costlier mortgage money in the year ahead. This spells continuing trouble for the builders of American homes and for the businesses that supply them. Total starts should drop to 1.3 million this year, a decline of 27% from the 1986 peak.

A housing slowdown would come on top of the slowdown already occurring in apartment, office and hotel construction. This sector still faces persistently high vacancy rates, even with spending down 25% below the 1985 peak. (According to McGraw-Hill, the national vacancy rate in office buildings is

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Residential builders													
Ryland Group	•/•	1	26.1%	25.4%	66.7%	4.2%	3	28.7%	1.0%	1	39.6%	0.8%	$842
Fleetwood Enterprises	35/12	2	24.1	16.1	0.0	3.6	4	14.7	12.5	3	24.5	22.3	1,470
MDC Holdings	86/88	3	23.9	def	353.3	def	1	58.7	–13.4	5	8.8	P-D	659
PHM Corp	55/•	4	18.0	1.3	500.0+	0.3	6	11.7	–7.4	7	–20.2	–87.9	1,099
Kaufman & Broad	44/44	5	13.0	14.4	188.7	2.6	2	29.1	43.3	2	38.2[d]	–15.9	2,009
General Development	66/NA	6	12.5	9.1	189.8	3.6	5	12.2	14.2	6	5.4	–29.6	509
Skyline	66/49	7	7.7	10.0	0.0	4.1	7	2.6	6.2	4	15.0	8.9	335
US Home	•/•	8	def	def	134.4	def	8	–5.2	–8.7		NM	P-D	718
Medians			**15.5**	**9.5**	**161.5**	**3.1**		**13.5**	**3.6**		**11.9**	**–22.8**	
Commercial builders													
Dover	34/28	1	17.3%	20.9%	3.4%	7.4%	8	9.9%	23.6%	3	4.9%	39.0%	$1,885
Centex	53/18	2	13.2	7.7	37.4	1.7	9	8.5	23.0	2	10.0	9.4	1,627
Blount	54/DP	3	12.4	3.2	110.9	0.3	6	11.4	12.5	5	–22.7	–30.9	1,385
United Technologies	32/29	4	11.3	15.8	35.2	3.9	12	3.7	4.0	4	–19.1	300.8	17,656
Turner	•/•	5	10.6	6.5	137.5	0.1	10	7.3	13.5		NM	D-P	3,133
Guy F Atkinson	77/18	6	7.7	def	16.5	def	16	–3.6	–1.5	6	–32.2	P-D	926
Foster Wheeler	45/DP	7	7.3	1.6	42.0	0.7	18	–5.8	–13.0	7	–37.3	–71.8	1,077
Morrison Knudsen	88/ 6	8	6.5	def	34.4	def	15	–3.5	1.5		NM	D-D	1,972
Perini	•/ 5	9	2.5	12.3	35.6	1.9	17	–4.5	15.4		NM	95.1	870
Enserch	38/DP	10	2.4	def	99.6	def	19	–6.4	0.6		NM	P-D	2,768
Trinity Industries	28/17	11	2.1	10.3	95.3	2.8	11	6.3	44.2		NM	408.7	745
Butler Manufacturing	•/•	12	2.0	6.5	23.7	1.1	7	10.3	4.6		NM	153.8	633
Halliburton	45/59	13	0.6	5.2	9.5	2.4	21	–14.1	39.5		NM	466.7	4,463
CBI Industries	50/DP	14	def	3.3	74.9	1.9	5	12.4[d]	1.3		NM	215.4	1,335
Comstock Group	•/•	15	def	def	310.5	def	4	15.0	4.6		NM	D-D	413

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'%, in hotels 35%, in apartments 7%.)

Forget about those big government-financed construction ojects. Fiscal restraint has put them in limbo. The value of ıblic construction for infrastructure projects should hold to e current $43 billion this year, in constant dollars around 2 billion.

This year's overall slowdown should drag in many of the booming Northeast cities, not just troubled farmbelt and oil states. The value of total construction in the Northeast should drop to just under $46 billion, down 6% from $49 billion last year.

The stock market is already anticipating this. Several giant

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
acobs Engineering	81/NA	16	def	20.5%	27.9%	0.9%	13	–0.9%	136.5%		NM	83.3%	$757
ischbach	●/●	17	def	def	33.0	def	14	–2.0	–21.1		NM	D-D	976
luor	83/●	18	def	31.9	24.9	3.6	20	–9.7	2.0		NM	D-P	4,740
enley Group	54/34		NA	def	12.0	def	3	31.0	–19.8		NA	D-D	2,788
VI Group	●/●		NA	def	240.9	def	1	99.7	2.0		NM	P-D	488
MR Holding	●/●		NA	29.9	24.9	1.6	2	45.2	55.8	1	53.5%	50.5	556
edians			**2.5**	**5.2**	**35.2**	**0.9**		**6.3**	**4.6**		**NM**	**39.0**	
ement and gypsum													
SG	51/68	1	24.5%	16.3%	NE	4.1%	3	17.3%	–15.1%	2	42.7%	–57.9%	$2,434
alMat	●/85	2	10.8	13.3	19.0%	10.2	1	23.0	–11.9	1	122.7	–22.0	584
one Star Industries	●/88	3	8.1	4.7	63.5	6.8	5	–2.6	–39.3		NM	–70.7	479
exas Industries	41/ 5	4	7.9	3.9	107.0	1.7	2	18.0	10.2		NM	D-P	650
afarge	●/●	5	3.9	16.2	46.6	6.9	4	5.5	12.6		NM	41.0	1,294
eal Basic Inds	●/●	6	def[b]	def	500.0+	def	6	–11.2	–1.7		NA	D-D	228
edians			**8.0**	**9.0**	**55.1**	**5.5**		**11.4**	**–6.8**		**NM**	**–40.0**	
umber													
illamette Inds	33/22	1	15.0%	26.1%	54.8%	9.7%	5	7.6%	20.4%	1	72.9%	47.3%	$1,650
ope & Talbot	48/54	2	11.2	22.1	51.7	6.4	3	8.4	19.3		NM	4.1	480
otlatch	30/17	3	9.8	16.9	53.0	9.9	8	3.3	7.0	4	42.2	26.9	1,051
eorgia-Pacific	67/58	4	9.6	17.5	80.0	4.9	4	7.9	12.5	3	50.9	14.6	9,171
eyerhaeuser	45/38	5	8.1	15.0	48.8	7.0	2	8.8	15.6	6	22.8	29.1	7,694
oise Cascade	26/20	6	6.9	18.3	58.2	6.7	6	4.6	6.3	2	66.9	86.8	4,035
ouisiana-Pacific	85/79	7	6.9	13.0	33.7	7.4	1	15.1	0.2	5	39.2[d]	21.9	1,829
hampion Intl	26/26	8	6.4	14.3	56.8	8.4	7	3.7	10.1		NM	14.0	4,972
edians			**8.8**	**17.2**	**53.9**	**7.2**		**7.7**	**11.3**		**40.7**	**24.4**	
ther materials													
organ Products Ltd	●/●	1	33.5%[b]	13.9%	51.3%	2.6%	2	29.2%	1.6%	3	23.4%[c]	–26.8%	$430
hilips Industries	●/●	2	24.0	20.7	16.0	5.6	3	17.2	22.9	2	24.2	11.3	803
asco	72/77	3	18.5	19.1	59.7	11.4	5	16.6	24.8	7	17.5	7.7	2,372
yco Laboratories	59/48	4	17.7	29.4	79.0	4.4	8	13.0	53.7	13	7.6	157.5	1,702
ulcan Materials	68/83	5	16.8	24.3	10.0	13.4	20	5.0	0.2	6	18.2	36.3	1,032
PG Industries	NA/NA	6	16.7	22.6	43.9	8.4	13	8.9	9.0	5	20.9	41.4	5,512
rmstrong World Inds	74/75	7	15.5	17.9	18.5	6.3	10	12.0	14.3	1	43.4	16.3	2,578
AF	48/16	8	15.0	16.8	83.6	9.4	21	5.0	16.7		NM	10.8	946
arlisle Cos	26/50	9	13.7	12.6	13.6	4.1	17	6.2	7.4	16	–5.4	27.7	561
emple-Inland	20/15	10	12.4[b]	19.8	45.7	10.7	16	6.4	10.6	4	21.0[d]	50.5	1,727
arsco	34/52	11	11.4	15.4	29.6	5.2	18	5.6	17.8	8	14.6	20.1	1,299
yler	17/27	12	11.2	13.5	334.9	3.2	22	3.3	–25.9	14	2.7	105.9	780
wens-Corning	62/59	13	10.9[b]	NE	NE	6.3	19	5.6	–7.6	11	10.1	–12.5	2,841
ughes Supply	●/NA	14	10.7	11.5	85.8	2.0	4	16.9	29.7	10	12.1	30.3	491
oleman	26/23	15	10.3	13.3	39.7	3.8	12	10.5	12.1	15	1.3	36.2	650
ortek	83/72	16	10.0	def	239.9	def	1	40.6	11.1		NM	P-D	1,360
row Group	NA/NA	17	9.9	def	137.6	def	7	16.0	–18.6	17	–29.6	D-D	390
oland	●/●	18	8.0	7.3	52.1	1.4	9	12.5	7.6	9	13.4	–5.9	458
allas Corp	●/●	19	5.6	5.5	46.8	1.4	11	11.9	4.5		NM	240.9	414
anville	72/67	20	5.4	13.8	50.0	7.1	23	3.2	6.7		NM	14.5	2,170
rane	36/28	21	5.1	17.9	52.5	4.1	6	16.0[d]	–9.8	12	9.1[c]	7.7	1,108
H Robertson	●/●	22	def	def	36.7	def	24	–5.0	–16.6		NM	D-D	393
ravo	●/●	23	def	def	45.8	def	25	–20.7	–28.1		NM	D-D	262
ormica	●/●		NA	34.1	87.0	7.5	15	7.4	6.7		NA	149.5	434
ork International	●/●		NA	11.4	5.8	2.6	14	8.8	34.0		NM	NA	1,185
edians			**11.2**	**13.8**	**46.8**	**4.1**		**8.9**	**7.6**		**8.3**	**15.4**	
ndustry medians			**9.9**	**12.8**	**49.4**	**3.4**		**8.4**	**6.9**		**–5.4**	**14.0**	
ll-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

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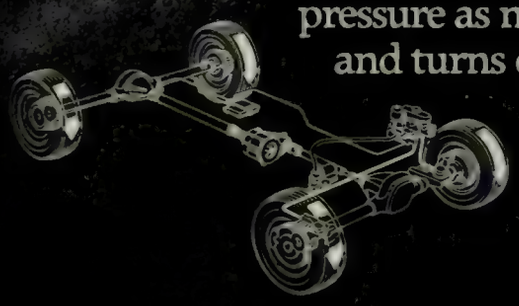

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operators were removed from the roster of public companies—Jim Walter Corp., American Standard Inc. and CertainTeed Corp.—in leveraged buyouts because their shares were irresistible bargains compared with the cash flow they were generating and their assets. Says John Stanley, an analyst at Wertheim Schroder & Co.: "I wouldn't be surprised if there were one or two more big buyouts, if shares stay at these depressed levels."

An export boom that boosted the log business this year is already slowing. It has been quite a boon for lumberm pushing U.S. exports of wood products to an estimated billion, from $4 billion in 1987. The biggest customer w Japan. The most aggressive buyer was the People's Republ of China, which bought more than twice as much as in 198 But Japan's housing boom seems to be slowing, according Bruce Kirk of Goldman, Sachs, and China's buying patter are too volatile to predict.

There's one bright spot in all this: Fewer homes are goi up, but the new homes being built are bigger and mo expensive. That means more lumber. The average squa footage of a new house has gone up to almost 2,000 squa feet, compared with 1,720 in 1983.

But this much is clear: The U.S. economy can't count construction for a lift in 1989. ■

This time for sure

William Agee of Morrison Knudsen

William Agee, 51, is the kind of man who shakes things up—for better or worse. Small wonder, then, that the stock of Morrison Knudsen Corp. started hopping soon after he and a group of colleagues from his days as head of Bendix Corp. took over management last August.

Something had to happen. Morrison Knudsen promised last year to return to profitability. Instead, it lost $60 million on sales of $1.9 billion. The directors called in Agee, who had been an outside director for nine years, when the losses got out of hand. It has proven a good choice.

Since taking over, Agee has pared the company back to construction, manufacturing and engineering services, shedding a series of poorly fitting businesses. Among other steps, he has agreed to sell 80% of Morrison Knudsen's shipbuilding business to the employees.

Agee has also tightened up bidding procedures, one of the main areas in which previous lax management had cost the company dearly. Now, Morrison Knudsen bidders have been ordered to concentrate on landing big contracts, in excess of $50 million, where margins are fatter. Says Agee: "It's no secret that America's tunnels and dams and harbors need work. This is a traditional MK strength we'll emphasize."

This year the slimmed-down Morrison Knudsen will likely deliver on its long-touted return to profitability. Wall Street analysts typically believe that MK will turn into a good money earner (estimates about $3 a share), even in the face of a nationwide construction slowdown. It may never coin money as it did in the old days. But be assured that if the stock drops much lower than $32 it may become a candidate for a leveraged buyout. In short, one way or another, a stock with promise.

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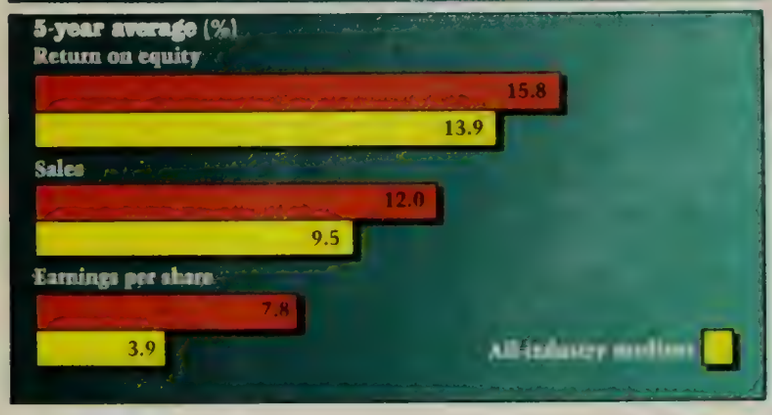


Here's why so many packaged goods companies have become takeover targets.

By Christopher Palmeri

IF YOU OWNED a nationally recognized brand name pro uct—as virtually all the companies on this list do—19 might very well have found you under attack by a raid Of the 52 consumer products companies on the list last ye 5, with stock worth in the aggregate more than $8 billio were acquired in 1988. Two now on the list—Chicago Paci and West Point-Pepperell—are under attack.

The industry is attractive in part because of its ability pass along cost increases as higher prices without hurti demand. In addition, concentration on cost-cutting has e abled industry leaders like Colgate-Palmolive to reduce pla capacity and payroll by more than 15% in recent yea Combined with a cheaper dollar, this should mean stro 1989 earnings gains for major consumer products makers.

One corner of this industry where price increases have n taken hold is the major appliance market. Even with oligopoly—General Electric, Whirlpool and Maytag—don nating the market, competition remains as aggressive as ev

Faced with rising material costs, for example, Gener Electric attempted 1%-to-3% price increases on its washe and dryers in early 1988. The increases unraveled wh archrival Whirlpool didn't follow. Late this spring, Whirlpo as well tried to raise its prices—with the same result. By fa the two introduced almost simultaneous 3% price hikes, b analysts don't think that will be enough to keep profit ma gins from sliding as 1989 proceeds. Right now, toothpaste a laundry detergent looks like a better business than refrige tors or washer-dryers. ■

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Appliances													
Harman International	•/•	1	44.7%[a]	19.1%	98.7%	2.6%	4	18.6%	34.0%	1	72.9%	28.7%	$8
Emerson Radio	•/•	2	26.8	def	85.5	def	2	54.0	–12.7		NM	D-D	70
Maytag	85/80	3	26.7	33.0	28.6	7.4	10	9.3	–1.1	3	21.4	–3.8	1,85
Fuqua Industries	25/42	4	25.0	35.0	70.9	12.7	14	3.1	20.6	5	14.3	147.9	90
Emerson Electric	20/24	5	19.4	19.8	16.8	8.0	8	12.1	7.8	7	7.0	15.5	6,65
Chicago Pacific	89/•	6	18.8	19.3	113.3	5.4	1	70.1	19.8	11	–11.9	173.0	1,57
General Electric	23/20	7	18.1	17.2	19.8	7.4	12	8.3	–2.5	9	4.1	19.8	38,56
Whirlpool	•/•	8	17.1	11.3	36.6	3.4	5	13.3	4.5	8	5.4	–15.4	4,33
Stanley Works	38/41	9	15.6	15.8	50.7	5.3	7	12.3	11.4	4	15.4	19.8	1,88
Toro	84/NA	10	14.2	24.8	69.3	3.3	3	20.2	16.9	2	31.2[c]	21.1	60
Standard Shares	41/22	11	13.2	10.8	12.7	2.3	11	9.0	16.7	6	7.8	–34.5	74
Briggs & Stratton	•/•	12	11.9	9.6	0.0	3.1	13	5.0	18.6	10	–5.0	21.3	93
Zenith Electronics	46/NA	13	4.9	def	66.7	def	6	12.6	11.3		NM	D-D	2,53
Black & Decker	•/•	14	3.4	14.8	41.2	4.3	9	12.0	17.9		NM	73.7	2,28
American Hoist	40/22	15	def	2.9	82.8	1.2	15	–5.7	3.1		NM	D-P	30
Allegheny Intl	•/•	16	def	NE	NE	def	17	–19.1	–20.8		NM	D-D	93
SSMC	77/89		NA	0.8	19.2	0.6	16	–6.6	8.4		NM	–82.0	68
Medians			**16.3**	**14.8**	**41.2**	**3.3**		**12.0**	**11.3**		**4.1**	**19.8**	
Home furnishings													
Shaw Industries	•/•	1	23.2%	24.1%	146.4%	3.5%	3	23.6%	46.3%	1	59.2%	35.3%	$1,05
Rubbermaid	•/•	2	22.3	22.1	8.4	8.3	5	21.9	21.6	4	20.1	18.0	1,16
Leggett & Platt	80/82	3	20.7	17.0	43.0	4.9	8	18.4	20.3	3	20.7	–3.9	76
La-Z-Boy Chair	•/•	4	18.3	15.4	42.1	5.2	7	19.1	17.6	2	23.4	9.2	50
Newell Co	80/•	5	17.4	16.1	57.9	5.4	2	28.1	76.0	7	14.8	54.3	99
Kimball International	52/75	6	17.3	15.3	4.8	6.1	10	14.3	6.0	6	16.1	0.3	52
Ohio Mattress	•/•	7	15.8	12.8	73.1	4.7	1	50.4	26.6	8	8.0	42.3	65
Bassett Furniture Ind	•/•	8	12.2	6.9	0.0	3.9	11	10.4	0.3	12	–5.0	–20.4	46
Corning Glass Works	26/18	9	10.9	19.3	29.4	14.1	13	5.4	6.9	5	18.7	90.5	2,11
West Point-Pepperell	32/46	10	10.4	12.3	122.2	4.3	12	9.8	26.3	11	–2.2	29.4	2,15

•90% or more **DP**: Segment deficit, total profit D-D Deficit to deficit D-P Deficit to profit P-D Profit to deficit def Deficit NA: Not available. NE: Negativ equity NM: Not meaningful a Three-year average c Three-year growth For further explanation, see page 77

Hoisting profits

American Hoist & Derrick has been down so long you couldn't pick it up with a crane. Good thing that American Hoist does not make cranes anymore and that management has another strategy. In November, the St. Paul-based miniconglomerate shelled out $110 million for CoastAmerica, a hardware distributor operating the 1,000-store Coast to Coast hardware chain. A hardware distributor may not in the strictest sense be a consumer products company, but American Hoist now seems to fit best, along with Black & Decker and Stanley Works, in our rankings.

American Hoist sorely needed the change. Last year the company unloaded its former flagship American Crane division, a terminal victim of the sagging oil and heavy construction industries that contributed to five straight years of deficits. After further cost-cutting, American Hoist was left with five disparate divisions, modest in size and profitability. Chief Executive Robert Nassau, who joined American Hoist in 1982 and watched the stock steadily decline throughout the bull market, chose to expand the hardware business by swallowing a major competitor. The postmerger American Hoist will be the nation's largest independent hardware distributor, and the only one with a real national presence. The move will more than quintuple the hardware division's sales.

Barry Staver

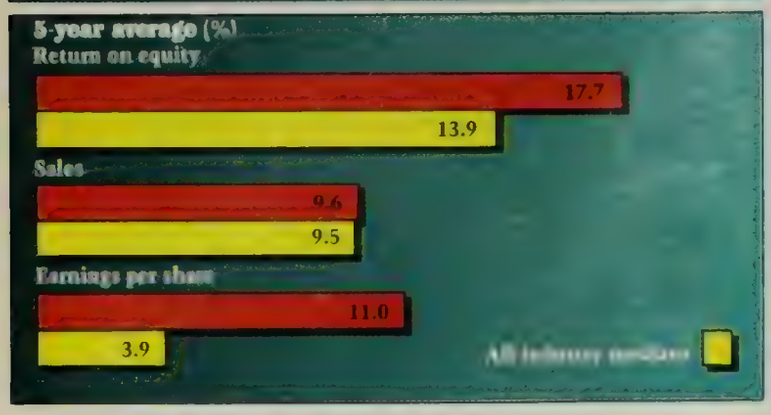
Robert Nassau

Recently at 12, the stock is selling at 12 times estimated 1989 earnings. American Hoist is highly leveraged, with long-term debt about 3 times equity. But with the opportunity of earnings gains from the acquisition, the stock, at 1.4 times estimated book value, is hardly overpriced.

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Home furnishings													
Interco	33/50	11	9.3%	11.5%	24.4%	4.9%	15	3.5%	–1.5%	9	4.1%	7.5%	$2,986
Springs Industries	44/66	12	8.0	9.0	46.4	2.5	9	14.8	11.5	10	–0.2	–16.8	1,798
Fieldcrest Cannon	•/•	13	5.3	def	149.6	def	4	23.1	0.3		NM	P-D	1,355
Amoskeag	•/83	14	4.6	def	292.9	def	6	19.7	9.1	13	–30.2	P-D	1,422
Premark Intl	41/39		NA	17.1	33.6	4.9	14	4.5	11.4		NM	D-P	2,368
Medians			**14.0**	**15.3**	**43.0**	**4.9**		**18.4**	**11.5**		**8.0**	**9.2**	·
Household products													
Clorox	•/•	1	20.9%	20.2%	2.6%	10.4%	2	5.6%	13.3%	1	13.8%	16.6%	$1,308
Greyhound	38/36	2	10.0	2.8	86.7	0.9	3	–7.6	31.1	2	–9.2	–84.0	2,923
Grow Group	32/DP	3	9.9	def	137.6	def	1	16.0	–18.6	3	–29.6	D-D	390
Medians			**10.0**	**2.8**	**86.7**	**0.9**		**5.6**	**13.3**		**–9.2**	**–84.0**	
Personal products													
Tambrands	•/•	1	30.6%	27.4%	0.0%	15.3%	4	12.9%	7.8%	10	11.9%	13.7%	$62
Bristol-Myers	22/17	2	24.3	25.0	5.7	13.8	12	8.1	11.6	9	13.1	16.7	5,854
Noxell	•/•	3	24.2	23.2	0.0	9.6	3	13.1	6.1	5	17.6	16.7	514
Gillette	•/•	4	22.6	44.8	NE	7.6	13	7.5	12.6	15	–10.4	348.1	3,480
Stanhome	58/52	5	19.9	27.4	1.1	8.1	7	12.0	12.8	2	26.1	28.0	470
Johnson & Johnson	42/26	6	19.1	27.5	19.9	10.8	15	6.4	14.2	13	5.8	25.5	8,828
Shaklee	65/78	7	18.1	8.6	7.3	3.6	17	–0.2	24.9	14	3.3	32.0	613
Hillenbrand Inds	42/45	8	18.0	22.5	33.9	8.4	2	13.2	20.0	8	13.2	31.0	836
Helene Curtis Inds	•/•	9	16.6	13.2	20.6	2.0	5	12.2	24.9	3	21.7	39.9	553
Schering-Plough	31/25	10	16.0	25.7	12.2	12.9	11	8.5	9.8	12	9.0	29.7	2,893
Service Corp Intl	•/•	11	15.8	12.1	65.6	11.6	1	15.9	23.6	6	17.6	8.9	550
Kimberly-Clark	77/70	12	15.6	23.0	48.9	7.0	9	10.4	10.8	11	11.6	31.4	5,256
Carter-Wallace	53/37	13	14.4	15.8	7.7	8.3	8	10.9	7.2	4	20.0	16.3	503
Procter & Gamble	44/48	14	14.3	17.5	37.7	5.3	14	7.2	15.2	17	–14.8	165.1	19,939
Scott Paper	68/48	15	13.3	23.6	75.3	8.5	6	12.1	13.4	1	28.6	76.5	4,542
Avon Products	•/•	16	12.8	def	500.0+	def	18	–2.2	8.2		NM	P-D	2,955
Colgate-Palmolive	75/43	17	11.1	19.3	64.3	4.6	16	2.1	–8.2	16	–13.4	415.4	4,987
Alberto-Culver	49/64	18	8.4	20.8	36.7	4.5	10	10.2	17.5	7	16.3	55.5	605
Medians			**16.3**	**22.8**	**20.3**	**8.2**		**10.3**	**12.7**		**12.5**	**30.3**	
Industry medians			**15.8**	**16.1**	**36.7**	**4.9**		**12.0**	**11.6**		**7.8**	**19.8**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more. **DP:** Segment deficit, total profit. D-D: Deficit to deficit D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE. Negative equity. NM: Not meaningful. a: Three-year average c: Three-year growth. d: Four-year growth. For further explanation, see page 77.

ELECTRICAL EQUIPMENT



Capital spending is lifting this industry's revenues, and cost-cutting is nailing down the profits.

By Alyssa A. Lappen

DEMAND FOR ELECTRICAL EQUIPMENT such as motors and generators, long the backbone of this industry's business, grew modestly in 1988. Yet the industry's earnings rose 15.5%, and for the ninth year the group outperformed the all-industry median profitability by a wide margin.

Give credit to cost-cutting, which has become a way of life throughout the industry, and robust export sales, thanks to a weaker dollar. Industrial demand for various electronically based process control equipment also helped.

Few industry executives expect a repeat of 1988's earnings gains, but they do expect rises in the 10% range. The growth will come largely from U.S. manufacturers' orders for new capital equipment to improve productivity and cut labor costs. "Current momentum will carry through in the first half," says Charles Knight, chief executive at Emerson Electric. "If there's any downside, it will be late in the year."

Cost-cutting and restructuring go on. Westinghouse joine its mature power transmission and control business wit Asea Brown Boveri's and sold its elevator operation. Gener Electric bought Roper Inc., which makes outdoor powe equipment and kitchen appliances, and Borg-Warner's chem cal division, which should help GE's plastics business.

Similarly, Cooper Industries bought RTE Corp., an electr cal and electronic parts maker, and Square D is expandin overseas. Also, Emerson Electric bought a French firm t complement its valve and pneumatic control operation.

Nearly all the companies on this list are raising spendin on research and development. GE, already profiting fror strong commercial airlines' jet engine orders, should have new, highly fuel-efficient engine by the mid-1990s. Raychen is pouring money into a promising new fiber-optic subsidiary At Emerson, 18% of commercial sales already derive fron products introduced recently such as specialty process con trols. Expect that trend to continue. ■

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Electrical equipment													
Mark IV Industries	43/41	1	36.0%	23.5%	410.1%	5.0%	1	86.3%	33.2%	1	61.2%	27.0%	$443
Emerson Electric	69/69	2	19.4	19.8	16.8	8.0	3	12.1	7.8	10	7.0	15.5	6,651
Westinghouse	76/66	3	18.3	22.0	93.7	7.0	11	2.5	9.4	3	16.1	10.7	11,407
General Electric	20/ 6	4	18.1	17.2	19.8	7.4	8	8.3	–2.5	11	4.1	19.8	38,562
Hubbell	•/•	5	17.7	19.5	2.2	11.5	9	7.7	5.2	5	12.7	15.5	606
National Service	42/35	6	17.7	17.0	3.8	6.1	7	9.2	6.6	9	8.7	13.6	1,414
Square D	81/•	7	16.5	16.8	22.8	7.0	10	6.8	10.8	8	8.9	3.0	1,610
WW Grainger	•/•	8	15.6	18.3	1.4	7.2	6	10.0	16.4	4	13.6	26.8	1,489
Raychem	73/83	9	12.8	18.8	4.1	10.4	4	11.6	14.0	7	9.9	40.9	1,104
Cooper Industries	49/61	10	9.3	12.8	71.3	5.1	2	13.0	19.1	6	12.1	21.9	4,074
General Signal	NA/NA	11	9.0	2.8	10.2	1.5	12	–0.1	10.5	12	–9.8	–60.3	1,719
Genlyte Group	•/•		NA	NA	500.0+	2.7	5	10.4[d]	10.4	2	22.5[d]	NA	481
Industry medians			17.7	18.3	18.3	7.0		9.6	10.5		11.0	15.5	
All-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

•[illegible] more DD: Segment deficit, total deficit DP: Segment deficit, total profit PD: Segment profit, total deficit D-D: Deficit to deficit. D-P: Deficit to profit. [illegible] deficit def: Deficit NA: Not available NE: Negative equity NM: Not meaningful a: Three-year average b: Four-year average. c: Three-year growth. d: [illegible] growth. For further explanation, see page [illegible]

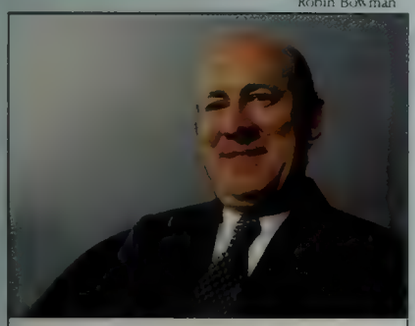
Never look back

Despite booming profits in the industry, General Signal's last really good year was 1984, and even then it lagged the industry. By 1987 its margins had fallen to 4.3%, its return on equity to under 8%, and 1988 won't look much better.

Yet General Signal's prospects look good. Why? Last April the board hired Edmund Carpenter, the former ITT chief operating officer, to turn things around. Asked how earnings ever got so bad, Carpenter curtly replies, "Never look back."

Carpenter is increasing the size of some of General's 29 divisions, most of which now have sales well under $100 million. Five telecommunications units have been reduced to four, three electrical units to one, two rail and mass transit units to one. He has sold two companies and will also now sell two small defense electronics units.

Robin Bowman



Edmund Carpenter

Cutting costs is also critical. Carpenter is encouraging cuts by pegging bonuses to earnings, cash flow, return on investment and working capital. He has written off $86 million for inventories, receivables, legal liabilities, severance and goodwill, but not at the expense of capital spending. This year General will sell and lease back more than half of its plants and use the proceeds, some $100 million, for new equipment, acquisitions and to pay down debt from a recent stock buyback.

General finally stands to profit from its prospering markets. The buyback boosted General's shares 15%, but the stock sells at only 11 times estimated 1989 earnings.

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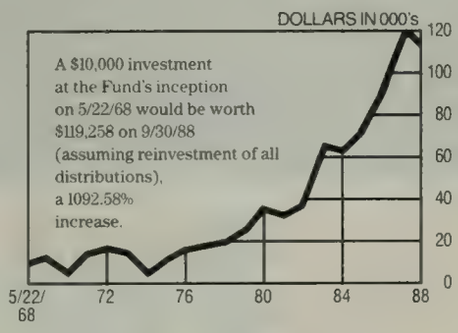

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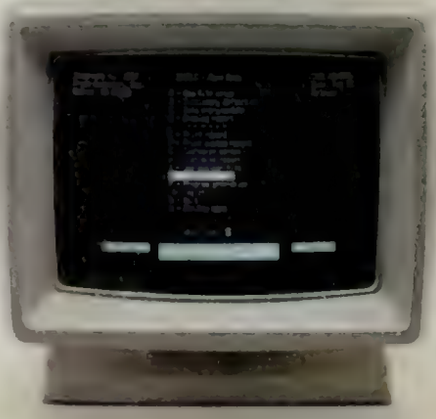

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ELECTRIC UTILITIES

The drive toward a free market for electric power was slowed in 1988, but not stopped.

By Edward F. Cone

PONDEROUSLY, ALMOST LIKE A GLACIER creeping across the landscape, deregulation has been reshaping the electric utilities business. In 1988 legal and regulatory obstacles slowed the trend toward mergers and acquisitions and freer competition. Slowed it but didn't stop it. Southern California Edison's bid for San Diego Gas & Electric, which itself wanted to merge with Tucson Electric Power, was resolved last month. In the settlement, SCE will pay over $2.5 billion for San Diego Gas & Electric, creating a company with assets of over $17 billion, the nation's largest investor-owned utility. Now that SCE has been given the go-ahead, more such marriages are likely.

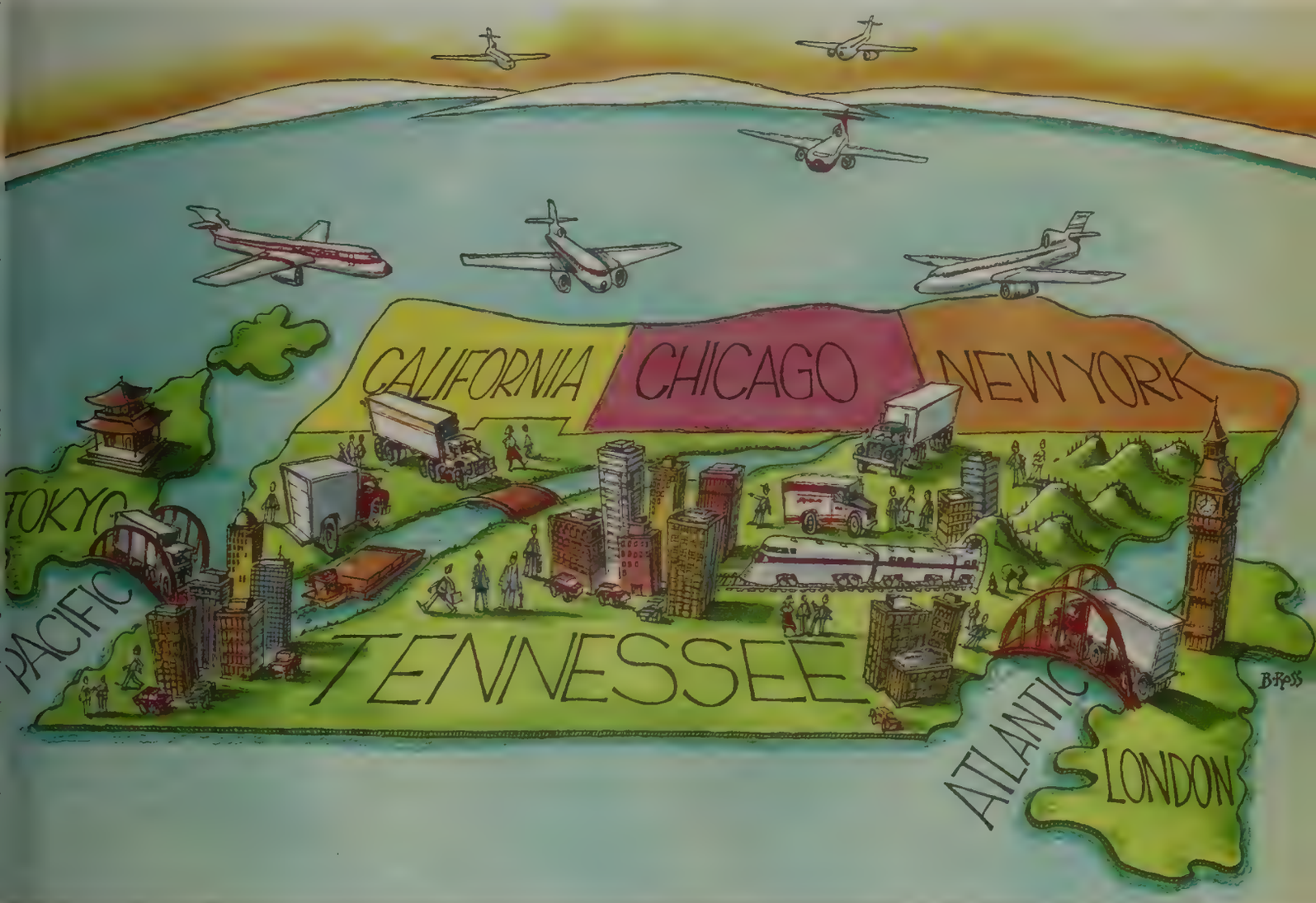
Mergers were not the only aspect of the move toward a freer utility industry. Public Service of New Mexico had hoped for approval of a plan to split itself into a wholesale generating company and a retail distribution company. State regulators said no, but others are looking into splitting power generation from power distribution.

Meanwhile, problems related to nuclear power continued. Public Service of New Hampshire became the first utility in 50 years to file for bankruptcy. Middle South Utilities and Gulf States Utilities had other problems with nuclear plants—construction difficulties and budget overlays—though both avoided Chapter 11. In New York State, squabbling politicians and contentious lawsuits continued to stall a settlement over Long Island Lighting Co.'s nuclear power plant, which is ready to go. Lilco is ready to abandon the plant but insists the public should pay at least part of the cost.

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Northeast													
New England Electric	•/•	1	17.4%	def	130.3%	def	10	2.8%	2.6%	7	5.5%	P-D	$1,489
Potomac Electric	•/•	2	17.4	16.8%	83.6	15.6%	6	4.5	–0.7	3	13.7	–2.8%	1,345
Commonwealth Energy	65/64	3	17.0	10.6	75.5	4.7	20	0.9	3.6	11	2.7	–4.0	669
Baltimore G&E	77/89	4	16.0	15.9	64.6	17.2	11	2.8	–2.5	5	10.2	2.3	1,792
Northeast Utilities	•/NA	5	15.9	11.4	159.8	9.3	18	1.5	8.6	14	–0.5	–17.8	2,221
Boston Edison	•/•	6	15.4	8.6	101.8	6.2	17	1.6	5.6	1	51.3	–38.3	1,223
Allegheny Power	•/•	7	15.2	13.8	105.4	9.2	16	1.9	16.7	8	3.6	–5.8	2,176
Delmarva Power & Lt	86/•	8	15.0	12.3	88.1	10.6	13	2.5	11.1	9	3.4	–11.1	757
Consolidated Edison	82/87	9	14.4	13.3	61.9	11.1	22	–0.5	0.0	10	3.2	–3.5	5,089
Atlantic Energy	•/•	10	13.9	14.5	101.1	10.9	5	6.8	3.4	6	9.2	9.4	658
Orange & Rockland	76/88	11	13.8	14.5	81.6	9.5	24	–1.8	2.8	12	2.7	10.9	472
Pub Svc Enterprise	70/88	12	13.3	13.7	96.5	12.2	14	2.4	–0.1	15	–1.1	46.8	4,282
Rochester G&E	70/87	13	12.8	9.3	121.3	7.4	21	0.8	2.7	20	–20.8	4.6	754
Long Island Lighting	83/•	14	12.7	7.9	117.6	15.7	8	4.4	4.4	17	–7.7	91.0	2,131
NY State E&G	88/•	15	12.6	8.9	139.7	8.6	2	8.0	–0.7	19	–18.6	D-P	1,300
Philadelphia Elec	88/•	16	12.4	14.2	117.0	18.3	9	4.3	0.0	16	–7.6	5.6	3,187
American Water Works	•/•	17	12.1	10.8	145.3	11.3	3	8.0	5.0	4	12.8	–0.5	504
Pennsylvania P&L	•/•	18	12.1	14.2	102.1	15.0	1	14.1	6.5	13	–0.5	12.7	2,216
Niagara Mohawk Power	83/•	19	12.1	7.2	119.7	6.5	19	1.3	6.4	21	–43.3	1.0	2,776
Central Hudson G&E	87/•	20	11.9	8.1	109.1	6.9	23	–1.3	3.0		NM	–57.7	434
General Public Utils	•/•	21	11.1	15.6	88.4	10.6	12	2.7	3.2	2	26.4	20.1	2,791
United Illuminating	•/•	22	10.4	13.3	158.8	13.6	15	2.3	4.9		NM	D-P	513
Central Maine Power	•/•	23	10.1	14.8	97.0	8.6	4	7.0	12.6	18	–14.0	69.7	641
Public Service NH	•/•	24	0.2	def	214.0	def	7	4.5	14.3		NM	P-D	597
Medians			**13.1**	**12.8**	**103.8**	**10.1**		**2.6**	**3.5**		**1.1**	**1.7**	

•90% or more **DD:** Segment deficit, total deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth. For further explanation, see page 77.

Tennessee.
Conveniently located between Tokyo and London.



The secret is out. Tennessee is going global. Now we are not only attracting location and expansion from companies all over the United States. Companies from Japan, the United Kingdom, West Germany, Sweden, Belgium, Canada, and other countries are joining the thriving businesses of Tennessee.

Businesses have opened or expanded here *faster than one a day for the past two years.*

Certainly the interest in Tennessee is fueled by our bulls-eye location in the U.S.; our peerless travel/transport system, major airline hubs, the axis of Federal Express; our commitment to our schools, and to educating the children of today and the bright, capable work force of tomorrow.

And something else. Our government runs our state like a business. Tennessee is one of only ten states with a AAA bond rating. We have a balanced budget, mandated by state law. Governor Ned McWherter spent 14 years as Speaker of the House—the man who had the sharpest pencil on the state budget. So the ROI on tax dollars is measured in improved transportation, education and human services — not in bureaus and monuments.

But perhaps the best measure of how well business is working in Tennessee — from the newest, two-person home-grown outfit to billion-dollar giants — is that the world is beating a path to our door.

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Contact Department of Economic and Community Development, 320 6th Avenue North, Suite 806F, Nashville, TN 37219-5308. Or call 1-800-251-8594. Fax: 615-741-5829.

Back from the dead

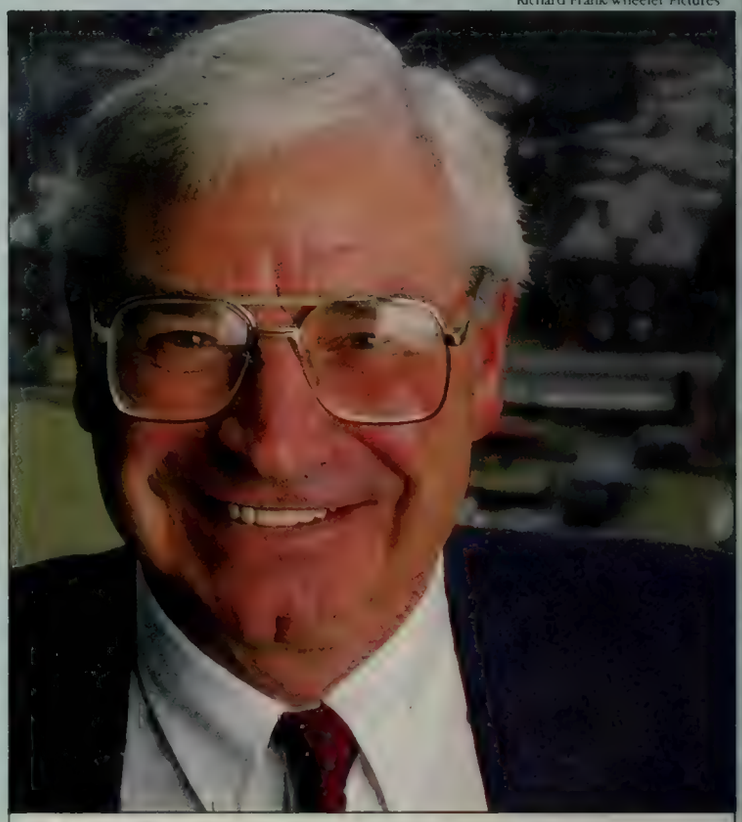
Public Service of New Hampshire a turnaround candidate? When last anyone looked, the thing was in the morgue. Beset by endless licensing nightmares at its Seabrook nuclear plant, the company filed for Chapter 11 last January. In 1988 PSNH shares, which traded at 20 five years earlier, bottomed out at one-tenth that price. Says Daniel Scotto, L.F. Rothschild managing director, "Seabrook is the industry's principal victim of hostile regulation."

But all is not lost. The Seabrook plant could begin generating electricity before the end of this year, and negotiations with the state of New Hampshire over a rate hike are in progress. Acquisition bids from nearby power companies, most notably Connecticut's Northeast Utilities, are also being solicited. "One way or another," says recently appointed Chief Executive John Duffett, "we are determined to maximize shareholder value."

Not that shareholders can expect an immediate bonanza: PSNH will need years to repair the damage done by Seabrook, and New Hampshire seems in no hurry to raise rates. But underneath the problems lie real strengths. The company lies in a region hungry for power, which should spur long-term growth. And in the deregulated future, PSNH could provide a crucial link in the transmission of cheap Canadian power throughout the Northeast. Since June, the stock price has recovered to over $5 a share, while preferred shares have moved up from $4 to $15.

"There is no magic pill to solve all of our problems at once," admits Duffett. "But the recent news has been good, and we've got nowhere to go but up."

Richard Frank/Wheeler Pictures



John Duffett of Public Service of New Hampshire

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
North central													
PSI Holdings	•/•	1	36.5%	38.0%	156.0%	12.9%	10	5.9%	–0.7%	25	–15.3%	15.7%	$1,05
UtiliCorp United	38/83	2	18.2	13.7	101.4	6.0	1	28.8	16.4	4	8.0	11.3	66
Kansas Power & Light	40/79	3	16.8	14.5	73.9	7.2	2	16.5	2.9	6	5.0	0.0	1,20
Minnesota Power & Lt	•/NA	4	16.6	12.6	92.4	14.5	15	2.7	3.8	3	8.0	–14.0	43
Ipalco Enterprises	•/•	5	16.4	14.9	82.0	16.0	8	6.6	9.0	2	8.7	–30.5	60
No States Power	85/•	6	16.2	14.8	71.7	11.3	16	2.3	10.7	10	4.3	0.6	1,95
Illinois Power	75/•	7	16.1	8.2	98.3	14.8	23	0.5	6.9	14	3.0	–47.9	1,28
WPL Holdings	80/•	8	16.1	15.5	68.2	11.2	17	1.3	5.3	13	3.2	8.1	58
Wisconsin Energy	82/•	9	16.0	17.9	84.4	13.6	21	0.6	8.6	5	7.0	21.2	1,49
Commonwealth Ed	•/•	10	15.8	10.6	83.9	15.4	9	6.2	–3.9	12	4.0	–28.3	5,49
Wisconsin Public Svc	74/•	11	15.6	14.7	59.1	9.4	25	–0.6	3.2	7	4.8	9.1	59
Iowa Illinois G&E	63/89	12	15.2	13.4	85.7	11.6	22	0.5	–0.5	17	–0.5	–8.1	48
Centerior Energy	•/•	13	15.1	10.1	95.1	15.9	12	4.1	–0.7	16	–0.4	–27.7	1,98
Ohio Edison	•/•	14	15.0	10.8	104.9	15.9	11	4.6	13.5	9	4.4	–27.7	2,02
Union Electric	•/NA	15	14.7	14.8	100.0	15.1	3	9.7	4.8	15	0.8	–13.6	2,02
Detroit Edison	•/•	16	14.6	9.5	149.9	11.1	7	6.6	4.9	1	10.9	–42.2	3,01
Cincinnati G&E	74/•	17	14.3	11.9	88.8	9.8	18	1.2	–0.9	23	–2.1	–39.6	1,36
Iowa Resources	•/•	18	13.7	9.5	101.7	9.9	29	–5.2	–2.8	19	–1.0	–25.1	33
Kansas City P&L	•/•	19	13.3	13.6	102.0	15.4	6	7.1	4.9		NM	D-P	73
CILcorp	68/84	20	13.1	10.0	97.6	7.0	27	–2.4	–2.2	18	–0.8	–31.4	46
Central Ill Pub Svc	82/•	21	13.0	14.0	71.9	14.1	26	–1.3	1.4	20	–1.0	24.3	61
Midwest Energy	41/87	22	12.7	16.0	136.3	7.3	4	9.3	5.3	8	4.8	32.0	57
American Electric	•/•	23	12.6	13.7	112.9	11.7	14	2.8	–2.0	11	4.1	–1.7	4,76

[illegible] DD: Segment deficit, total deficit DP: Segment deficit, total profit PD: Segment profit, total deficit D-D: Deficit to deficit. D-P: Deficit to profit [illegible] NA: Not available NF: Negative equity NM: Not meaningful a: Three-year average b: Four-year average. c: Three-year growth [illegible] see page [illegible]

ELECTRIC UTILITIES

On the positive side, demand for electric power grew by 5% n 1988, twice the rate estimated by analysts as the year egan. Fuel costs stayed low, which, combined with the teady decline in industrywide construction, lowered real osts for electricity.

Despite the setbacks to deregulation, a free market for electric power remains a plausible goal. A compelling precedent has been set for takeovers, and the wholesaling of power is too attractive a prospect for today's aggressive utilities to abandon, even though its implementation is proving to be tricky. In sum, 1988 wasn't the end of the changes in this industry, just a time of growing pains. ■

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Duquesne Light	•/•	24	12.5%	11.0%	124.4%	14.7%	13	3.7%	12.7%	21	–1.2%	26.1%	$1,005
DPL	76/•	25	12.1	11.7	119.2	9.7	20	0.8	6.0	24	–4.4	–25.2	974
IE Industries	75/89	26	11.5	13.6	106.5	8.3	24	0.0	2.1	22	–1.8	6.3	427
Kansas Gas & Elec	•/•	27	9.9	10.5	111.3	14.8	5	7.7	0.5		NM	500.0+	519
Nipsco Industries	60/•	28	5.5	7.8	130.1	6.6	28	–4.2	2.3		NM	60.9	1,491
CMS Energy	58/77	29	def	20.2	205.0	9.8	19	0.8	0.8		NM	46.0	2,880
Medians			**14.7**	**13.6**	**100.0**	**11.6**		**2.7**	**3.2**		**0.8**	**0.0**	
Southeast													
Florida Progress	65/•	1	15.8%	13.8%	80.6%	8.7%	1	10.8%	7.2%	1	11.9%	–9.5%	$2,010
Southern Company	•/•	2	15.1	12.0	127.4	10.7	5	7.6	3.4	10	–0.8	7.8	7,240
Scana	72/•	3	14.9	13.3	96.6	10.8	8	4.9	–5.4	4	7.0	–13.8	1,066
TECO Energy	•/89	4	14.8	14.6	82.8	11.4	3	10.5	7.0	3	7.4	0.0	1,022
Duke Power	•/•	5	14.4	14.4	66.9	14.1	2	10.8	0.8	6	5.7	4.8	3,681
Carolina Power & Lt	•/•	6	14.2	8.0	94.6	10.0	6	6.5	7.8	8	4.9	–41.4	2,219
FPL Group	81/NA	7	13.8	13.9	103.0	9.2	4	8.2	9.8	7	5.6	9.2	4,739
Louisville G&E	75/•	8	13.6	13.5	80.2	12.9	10	2.1	0.4	5	6.7	7.4	644
Dominion Resources	•/NA	9	13.2	14.2	133.3	13.3	7	6.3	–0.9	2	8.4	–3.9	3,260
Kentucky Utilities	•/•	10	13.1	15.9	69.7	14.4	9	2.8	–0.3	9	2.6	24.1	556
Medians			**14.3**	**13.9**	**88.7**	**11.1**		**7.1**	**2.1**		**6.2**	**2.4**	
South central													
Southwestern Pub Svc	•/•	1	19.6%	16.8%	79.7%	13.8%	2	5.0%	2.9%	4	2.6%	14.7%	$794
Central & So West	•/•	2	16.3	14.9	101.1	14.9	7	0.0	3.7	2	6.9	0.0	2,512
El Paso Electric	75/•	3	16.0	6.8	110.3	13.1	1	8.1	18.6	8	–14.6	–24.5	392
Texas Utilities	•/•	4	15.4	13.1	107.4	16.3	3	4.6	1.7	3	3.7	–7.3	4,131
Houston Industries	83/NA	5	15.3	12.6	102.9	11.7	8	–1.9	0.2	1	13.6	–8.2	3,596
Oklahoma G&E	•/•	6	13.8	17.0	82.7	13.5	5	3.5	0.4	5	0.2	33.6	1,091
Gulf States Utils	•/NA	7	12.8	4.1	97.7	9.7	6	2.1	3.8	6	–5.1	–47.6	1,490
Middle South Utils	•/NA	8	11.1	7.2	128.2	9.4	4	4.2	–0.1	7	–7.4	–26.3	3,471
Medians			**15.4**	**12.8**	**102.0**	**13.3**		**3.8**	**2.3**		**1.4**	**–7.8**	
Western													
Tucson Electric	•/•	1	18.8%	16.4%	104.2%	24.3%	6	6.7%	19.0%	3	6.9%	3.3%	$537
San Diego G&E	66/•	2	16.4	14.5	86.9	9.2	8	5.0	16.7	6	1.1	51.9	2,080
SCEcorp	•/•	3	16.1	16.3	109.2	13.5	7	5.3	13.2	4	3.2	27.3	6,127
PacifiCorp	49/62	4	15.9	15.1	93.0	13.1	3	9.0	2.5	7	0.9	6.8	2,227
Pinnacle West	67/NA	5	13.9	8.2	121.7	13.3	9	4.9	8.2	8	–1.0	–30.4	1,404
Pacific G&E	66/80	6	13.2	7.7	100.4	9.1	11	2.5	2.1	12	–7.3	–4.0	7,433
Public Service Colo	65/83	7	13.1	15.9	85.7	8.8	12	0.7	1.7	5	1.9	–4.4	1,692
Public Service NM	68/86	8	12.0	def	96.2	def	1	14.1	11.5	10	–7.0	P-D	792
Montana Power	51/54	9	11.8	9.4	63.6	10.4	4	7.1	10.8	11	–7.1	30.0	720
Portland General	•/•	10	11.6	8.1	98.3	9.4	5	7.0	–0.9	13	–23.5	500.0+	753
Hawaiian Electric	89/•	11	11.4	10.5	84.0	6.4	13	–2.2	16.8	1	11.7	–8.6	704
Utah Power & Light	•/•	12	11.3	14.9	108.1	16.2	10	4.8	3.4	9	–3.1	67.7	1,019
Puget Sound P&L	•/•	13	9.9	13.9	95.2	16.4	2	9.8	7.4	2	10.1	4.9	768
Medians			**13.1**	**13.9**	**96.2**	**10.4**		**5.3**	**8.2**		**0.9**	**4.9**	
Industry medians			**13.9**	**13.4**	**100.2**	**11.1**		**4.1**	**3.4**		**2.6**	**0.3**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth. For further explanation, see page 77.

FINANCIAL SERVICES

cut j32

It pays to be where the action is. In financial services the action last year was in tax complexity, mergers and plastic money.

By Matthew Schifrin

LET THE MEDIA AND THE politicians bemoan the merge and-acquisition game; Wall Street loves it. No wond More than 50% of the pretax earnings at Morg Stanley, First Boston and Shearson came from merger-relat business this year. Morgan Stanley's shares moved up nea 60% since January on the strength of merger-related incom as well as fees from $3 billion worth of junk bond underwr ings. PaineWebber's brokerage business was a loser duri the year, and altogether the firm would have lost 30 cents share had it not been for the merchant banking profits from single transaction—the sale of National Car Rental last su mer, which brought in $46 million, or $1 a share. Merr Lynch's brokerage business was flat at best, but the fir should nonetheless report year-end overall earnings gains 23% over last year. Reason? Merger activity helped mighti but Merrill also kept its 12,000 account executives busy. W the retail customer disenchanted with the stock market? Y but Merrill's salespeople were out selling packaged produc such as bond funds and insurance.

Obviously, the merger fever won't last forever—although may well have a good way to go. Morgan Stanley, Salom Inc. and Bear, Stearns are hedging their bets through sto buybacks against the day when the lucrative merger busine quiets down. What happens when the honeypot dries u Outfits like Merrill and Shearson, with their big selli

"Not another Texas bank"

You could hardly think of a worse business to be in last year: Guaranteeing mortgages on Texas real estate. That's a big chunk of what Dallas-based Lomas Financial Corp. (1988 revenues, $1.2 billion) does. Of course, its 600,000 single-family mortgages worth some $22 billion span 50 states, but Texas is not the only real estate market in trouble. For 1988, Lomas reported its only loss since 1965—$56 million, or $1.65 a share. Lomas' stock, which traded as high as $39 in early 1987, now sells for around $12.

But this particular invalid has an excellent prognosis. Since 1984 Lomas Financial's smart chief executive, Jess Hay, has aggressively restructured the firm so that mortgage banking now accounts for less than 25% of the business. Besides mortgages, there's a $1.6 billion (assets) retail banking operation that includes a brisk credit card business. Lomas also has various life insurance subsidiaries and a commercial leasing unit. Non-real-estate businesses last year accounted for some $138 million in operating profits, substantially lessening the hit from mortgage banking losses.

Jess Hay of Lomas Financial Shelly Katz

In anticipation of a dividend cut, institutions have been unloading the shares, which helps explain Lomas' $12 stock price. Frank Anderson, an analyst at Little Rock-based Stephens Inc., notes that continued selling should create an excellent buying opportunity for long-term investors, once year-end tax selling ends.

Anderson argues that a dividend cut to, say, $1.00 from the current $1.40 would still produce a yield of nearly 8%. Moreover, Lomas' strong cash flow from other businesses should produce earnings of at least $1.10 per share in 1989, even if interest rates continue to rise. "This is not going to be another Texas bank," he says.

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FINANCIAL SERVICES

networks, are in good positions to make money handling the financial affairs of the growing millions with capital to invest or an old age or college education to take care of. Meanwhile, the internationalization of business and the constant restructuring offer plenty of opportunities for growth in the years ahead. In short, Wall Street won't necessarily starve when the current wave of leveraging slows.

Moving into other financial services, H&R Block, Student Loan Marketing, Beneficial Corp., Equifax and Fannie Mae all reported record earnings in 1988.

H&R Block can thank tax reform for its splendid returns. Every time Congress writes new complexity into the tax code, it drives more and more citizens into the arms of professional tax preparers. With no simplification in sight, it is hard to see how H&R Block can lose. H&R Block has also been building up its database communications firm, Comp Serve, as well as an office temps firm. As H&R Block benef from tax complexity, so American Express benefits from t trend away from paper to plastic money. American Expr posted an impressive year thanks largely to its credit car whose membership and earnings, despite aggressive compe tion, continue to grow by more than 15% annually.

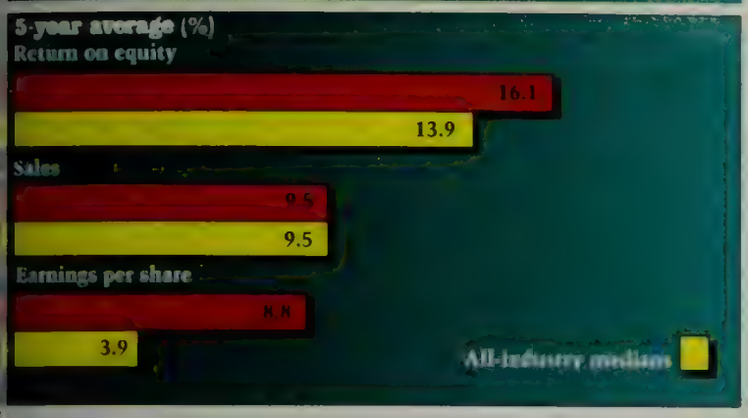
The biggest loser in financial services is Dallas-bas Southmark Corp., a $9.1 billion (assets) real estate and fin cial firm that ranked third in five-year average return equity on our list last year, when it traded as high as Today Southmark is on the brink of bankruptcy, and shares languish at 2. Depressed real estate markets ha squeezed the cash flow it needs to service its huge debt.

Another firm in virtually the same businesses as Sou mark—and also carrying lots of high-yield debt, Drexel t and a load of risky real estate investments—is Phoenix-bas American Continental. This year it ranks second on our l in return on equity. A recent flurry of short selling in t stock (FORBES, *Dec. 26, 1988*) could mean trouble ahead American Continental. ■

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil
Financial companies													
Student Loan	•/•	1	35.4%	40.6%	500.0+%	10.3%	7	15.1%	35.8%	2	30.8%	30.9%	$2,0
American Continental	31/14	2	34.3	41.2	500.0+	def	5	24.1	–4.8	7	10.6	123.7	6
Equifax	•/•	3	24.5	26.1	14.3	4.8	9	9.5	10.1	4	16.8	23.4	7
H&R Block	54/72	4	23.3	23.8	1.3	10.9	6	20.0	13.2	5	12.7	17.8	7
Lomas Financial	80/DP	5	21.8	def	336.9	def	3	32.0	59.9	6	11.4	P-D	1,2
Southmark	54/•	6	18.6	def	166.0	def	1	47.0[c]	36.1	8	3.9	P-D	3,0
PHM Corp	45/DP	7	18.0	1.3	500.0+	0.3	8	11.7	–7.4	9	–20.2	–87.9	1,0
Household Intl	53/60	8	16.0	22.6	500.0+	5.4	16	–20.8	35.4	3	18.6	1.6	4,3
American Express	•/•	9	14.7[b]	16.8	277.7	3.4	4	29.2	22.1	1	63.0[d]	–46.0	21,4
Gulf & Western	38/41	10	9.6	17.6	61.1	7.3	14	–8.2	19.7		NM	30.4	5,0
Integrated Resources	31/78	11	9.3	6.8	152.5	3.4	2	33.5	28.6		NM	–33.8	1,3
Federal Natl Mortgage	•/•	12	7.9[b]	30.0	500.0+	5.2	11	7.1	8.5		NM	265.1	10,6
Kansas City Southern	30/46	13	7.5	5.9	82.2	3.5	12	5.5	2.4		NM	D-P	5
Beneficial Corp	87/•	14	6.3	15.9	385.7	9.9	15	–9.8	2.0		NM	D-P	1,2
Cigna	33/34	15	5.1	9.1	7.0	2.8	10	8.4	4.1		NM	–38.7	17,5
Commercial Credit	•/•	16	3.2	14.5	204.3	10.4	13	0.7	–3.5		NM	500.0+	9
Medians			**15.3**	**16.3**	**241.0**	**4.1**		**10.6**	**11.6**		**–8.2**	**20.6**	
Brokerage houses													
Shearson Lehman	•/•	1	20.0%	1.3%	301.8%	0.5%	2	38.2%	50.1%	3	0.4%	NA	$9,4
First Boston	•/•	2	19.2	11.0	34.1	3.6	5	22.2	7.2	4	0.2	–21.1%	3,6
AG Edwards	•/•	3	18.5	9.8	0.0	5.6	9	14.5	–9.9	1	6.2	–46.3	4
Salomon	•/47	4	15.9	6.5	172.3	4.3	6	20.0	–11.5	6	–11.5	–23.0	5,6
PaineWebber Group	•/•	5	14.2	3.5	34.0	2.1	7	17.0	–4.7	5	–5.0	–65.0	2,3
Merrill Lynch	79/75	6	12.5	5.8	188.4	1.9	8	16.9	–5.7	2	5.9	–67.8	10,1
Bear Stearns Cos	•/•		NA	0.0	38.5	NA	4	29.4	NA		NM	NA	N
Morgan Stanley	•/•		NA	30.3	54.4	8.7	3	36.1	19.9		NM	21.0	3,6
Charles Schwab	•/•		NA	0.0	115.6	def	1	43.5	–0.6		NA	NA	4
Medians			**17.2**	**5.8**	**54.4**	**2.8**		**22.2**	**–2.6**		**–2.4**	**–34.7**	
Commodity traders													
Universal	32/21	1	18.7%	18.0%	23.6%	2.4%	3	8.2%	15.7%	1	10.5%	2.9%	$2,5
Std Commercial	46/44	2	12.4	7.3	31.7	1.3	1	11.3	21.5	2	6.3	–19.3	8
Commercial Metals	54/20	3	8.0	16.6	19.7	2.2	4	–3.1	29.4	3	5.0	150.0	1,1
Balfour Maclaine	•/•		NA	def	132.6	def	2	10.9	55.9		NM	P-D	1,0
Medians			**12.4**	**11.9**	**27.7**	**1.8**		**9.6**	**25.4**		**5.6**	**–8.2**	
Industry medians			**15.9**	**9.8**	**132.6**	**3.4**		**15.1**	**11.6**		**0.3**	**–8.8**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segment deficit, total deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit D-D: Deficit to deficit D-P: Deficit to prof P-D: Profit to deficit def: Deficit NA: Not available NE: Negative equity NM: Not meaningful a: Three-year average. b: Four-year average. c: Three-year growt d: Four-year growth. For further explanation, see page 77

FOOD DISTRIBUTORS



Many supermarkets have been stocking up on debt. That means opportunity for conservatively run competitors.

By Ralph King Jr.

DURING 1988 Kohlberg Kravis Roberts & Co., the leveraged buyout firm, became the nation's biggest supermarket operator—which speaks volumes for what's been going on in this long-neglected industry. One way or another, chains are being either taken private or taken over. Thus, Stop & Shop Cos., Farm Fresh, Cullum Cos., Lucky Stores, Godfrey Co. and Southland Corp. are now gone from our list. Kroger Co. and Delchamps borrowed heavily to remain independent. The food retailers are takeover bait because of their valuable real estate as well as their stable cash flows, which help

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Wholesale and supply													
Marriott	46/33	1	22.2%	27.4%	412.6%	3.2%	3	20.6%	13.8%	3	19.2%	16.9%	$7,121
Super Valu Stores	77/74	2	21.2	18.1	76.4	1.3	7	13.4	5.6	7	8.0	22.4	9,808
Super Rite Foods	60/•	3	19.2	18.2	49.9	1.0	2	23.9	10.4	8	3.2	70.9	684
Sysco	•/•	4	17.5	18.2	108.8	1.9	6	16.5	28.2	5	10.6	48.2	4,899
Wetterau	•/79	5	16.8	19.2	161.1	0.9	8	12.8	17.8	4	10.9	13.8	4,588
Super Food Services	•/•	6	16.7	17.3	77.3	0.9	12	6.1	2.5	2	24.2	20.2	1,573
Fleming Cos	•/•	7	14.2	9.0	167.2	0.5	5	18.1	11.3	11	–2.1	–16.2	9,377
Intl Multifoods	48/27	8	13.1	10.0	27.2	2.0	10	9.0	18.7	10	–0.5	–40.9	1,801
Nash Finch	68/67	9	13.1	15.0	44.7	1.0	9	11.4	5.4	6	8.5	27.0	2,046
ITW Services	59/42	10	12.2	14.3	235.7	1.8	4	19.0	64.0	1	80.7[d]	160.8	3,502
Rykoff-Sexton	•/•	11	11.2	12.6	46.5	1.5	1	31.6	8.4	9	0.2	41.3	1,179
Di Giorgio	79/47	12	3.4	8.7	69.7	1.0	13	1.3	2.2		NM	D-P	1,007
Finevest Foods	•/•		NA	15.0	113.4	0.5		NA	31.2		NA	–15.8	622
Richfood Holding	•/•		NA	0.0	101.6	def	11	6.5	15.7		NA	NA	1,123
Medians			**15.5**	**15.0**	**89.5**	**1.0**		**13.4**	**12.6**		**8.2**	**22.4**	
Major supermarkets													
American Stores	79/76	1	23.2%	12.0%	276.5%	0.9%	1	15.5%	9.4%	3	6.0%	–6.0%	$15,433
Albertson's	•/•	2	20.0	22.7	25.2	2.4	3	8.2	13.5	2	13.6	38.0	6,404
Winn-Dixie Stores	•/•	3	18.3	16.6	11.9	1.3	5	5.4	2.5	4	1.3	7.9	9,040
Kroger	•/•	4	12.8	18.6	74.5	1.1	4	7.1	6.7	5	–8.4	62.6	18,813
Great A&P Tea	•/•	5	11.3	13.6	39.0	1.2	2	15.3	6.6	1	33.9	28.3	9,761
Medians			**18.3**	**16.6**	**39.0**	**1.2**		**8.2**	**6.7**		**6.0**	**28.3**	
Regional supermarkets													
Mayfair Super Markets	•/•	1	42.6%	39.6%	155.3%	2.1%	10	8.7%	17.6%	2	43.4%	22.4%	$574
Food Lion	•/•	2	29.7	31.4	40.0	3.0	1	26.0	25.2	5	30.7	37.5	3,502
Bruno's	•/•	3	26.0	18.9	62.2	2.2	3	16.8	45.6	10	17.4	21.8	1,978
Big Bear	78/72	4	25.4	17.7	25.7	1.8	15	6.3	6.8	12	12.3	21.0	930
Giant Food	•/•	5	22.8	24.1	58.1	3.0	12	8.1	7.3	13	12.1	70.7	2,837

•90% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth. For further explanation, see page 77.

FOOD DISTRIBUTORS

support big debt loads in good times and bad.

With their balance sheets now strained, some supermarket chains will be forced to raise food prices, cut costs, curtail expansion and perhaps sell assets. That will not please consumers, but it should delight conservatively financed chains, such as Albertson's, which may be able to exploit competitors' weaknesses and expand market share. Foreign-controlled operators, like Great Atlantic & Pacific Tea Co. and Food Lion, with over 11% of the U.S. food retail business already and considerable staying power, are expected also to increase market share in the year ahead.

Wholesalers, which supply independent stores that co- pete directly with chains, stand to gain from the situation well. Some chains are turning to wholesalers rather th operate their own warehouses or build new ones. As a resu patient investors in these companies are finally seeing so payoff. Super Valu Stores' stock is up 30% year-to-date, Na Finch Co. climbed 36% and Wetterau rose 38%.

Another plus for wholesalers: Massive consolidation th has swept the industry for several years is producing so

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
Fred Meyer	32/NA	6	21.2%	14.4%	44.8%	1.8%	8	11.0%	10.1%	7	27.3%	17.4%	$1,9
Weis Markets	•/•	7	19.0	17.8	0.0	7.0	13	6.9	2.8	14	11.4	11.1	1,1
Hannaford Bros	•/•	8	19.0	19.4	53.0	2.3	5	13.1	16.1	11	16.4	16.7	1,1
Schultz Sav-O Stores	•/•	9	16.4	17.6	92.7	0.7	17	2.9	–0.3	6	30.4	4.9	4
Arden Group	73/42	10	15.8	45.4	97.6	2.7	21	–5.8	–4.2	3	37.8	94.3	3
Ingles Markets	•/•	11	15.4[b]	12.4	58.1	1.6	6	12.1	16.0	9	18.1	12.7	7
Delchamps	•/•	12	15.1	13.6	59.1	1.1	9	9.2	8.0	17	–2.7	40.8	8
Village Super Market	•/•	13	14.1	14.7	91.3	1.0	7	11.9	9.5	4	35.9	6.4	6
Ruddick	82/48	14	13.4	14.0	69.7	1.7	4	14.6	13.6	15	4.2	26.0	1,1
Marsh Supermarkets	77/NA	15	11.5	13.4	111.4	0.9	11	8.5	8.8	8	24.9	–0.3	8
Seaway Food Town	•/•	16	8.0	41.4	108.3	1.8	20	–1.1	–2.1	16	–1.0	312.6	4
Craig	NA/NA	17	7.5	19.3	398.6	0.4	2	17.9	9.0		NM	36.6	1,0
Foodarama Supermkts	•/•	18	7.2	15.6	84.0	0.9	18	2.3	2.3	1	56.5	130.8	4
Borman's	•/•	19	def	def	500.0+	def	19	0.9	–4.8		NM	P-D	1,0
Penn Traffic	•/•		NA	43.2	479.1	0.7	16	4.7	8.7		NM	NA	6
Vons Cos	•/•		NA	def	337.7	def	14	6.7	10.4		NA	D-D	3,5
Medians			**15.8**	**17.7**	**84.0**	**1.7**		**8.5**	**8.8**		**16.9**	**21.4**	
Convenience stores													
Circle K	•/•	1	23.5%	14.8%	245.9%	1.8%	2	30.6%	14.9%	1	19.6%[d]	12.1%	$2,7
Dairy Mart	76/DP	2	16.7	15.8	209.4	0.9	1	73.3	6.4		NM	D-P	5
Natl Convenience	•/•	3	12.6	0.3	461.0	0.0	3	8.4	13.8		NM	D-P	9
Munford	68/PD	4	7.4	def	56.7	def	4	4.5	–10.3		NM	D-D	4
Medians			**14.6**	**7.6**	**227.6**	**0.5**		**19.5**	**10.1**		**NM**	**12.1**	
Restaurant chains													
McDonald's	•/•	1	22.6%	21.4%	85.9%	11.7%	5	12.0%	15.6%	3	14.1%	18.5%	$5,3
PepsiCo	36/26	2	22.4	28.5	84.5	5.9	8	7.9	10.3	1	25.0	28.0	12,2
Shoney's	84/77	3	20.5	17.6	NE	7.2	1	16.3	5.2	2	14.8	15.0	7
Collins Foods Intl	•/•	4	18.2	13.6	13.5	4.7	2	13.7	4.9	6	8.0	8.6	5
Pillsbury	42/25	5	16.6	5.2	72.4	1.1	3	13.6	0.3	5	8.2	–62.9	6,2
Morrison	61/79	6	14.1	17.5	11.0	4.1	7	9.5	15.5	8	–0.3	35.3	7
Jerrico	•/•	7	13.2	8.3	52.2	2.8	9	7.0	6.8	7	4.2	–22.7	6
Wendy's Intl	•/•	8	12.7	6.3	43.9	2.4	4	12.8	2.0		NM	500.0+	1,0
Church's Fried	•/•	9	10.1	1.6	7.1	1.0	12	–0.6	–2.2	9	–23.9	–56.0	4
Horn & Hardart	25/24	10	2.0	def	295.9	def	6	10.4	7.9		NM	P-D	4
Foodmaker	•/•		NA	16.0	451.0	2.3	11	3.4	39.0		NA	20.0	8
General Mills	28/18		NA	73.7	43.7	9.4	10	5.5	0.3	4	9.2	118.1	5,2
Medians			**15.3**	**14.8**	**48.1**	**3.4**		**10.0**	**6.0**		**8.0**	**16.7**	
Industry medians			**16.1**	**15.7**	**75.4**	**1.4**		**9.5**	**8.7**		**8.8**	**20.6**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

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powerful players. The big three here are Super Valu, Wetterau and Fleming Cos. As distribution systems become increasingly capital intensive, these giants will continue to outpace undercapitalized rivals.

Merchandising tactics are changing, too. "Piling high and selling cheap wears thin for the consumer," says food marketing analyst Philip Lempert. Baby boomers are willing to pay a few cents more for ketchup in exchange for better nutritional information and more product sampling at the store, and for decor that is less impersonal. One Minnesota chain, Byerly's, has put in chandeliers and carpeted the aisles.

Supermarkets are not the only ones threatened by th takeover wave. Grand Metropolitan Plc.'s attack on Pillsbur Co. has exposed widespread discontent among franchisees c its Burger King Corp. subsidiary. The vulnerability of th number two chain can only bolster McDonald's already com manding lead in the burger wars. Wendy's Internationa meanwhile, is suffering from unsuccessful new products an poor service, and has forfeited third place to lookalike Ha dee's Food Systems. ■

Unsung giant

Most people have never heard of Fleming Cos., yet groceries sold by 5,700 supermarkets in 37 states must first skid along conveyors in one of its cavernous warehouses. Since 1984 the Oklahoma City-based kingpin of food wholesaling has spent $870 million on acquisitions and more than doubled sales to an annualized rate of about $12 billion.

Fleming's growth has been swift but extremely painful. Its return on equity, after years in the 14%-to-18% range, has been in single digits since 1985. And Fleming's stock has been a heartbreaker. In 1987 it plunged from 45 to 22, and recently traded at 34.

Everything has gone wrong. First, depression in the farm and oil industries punished its operations in those regions. Next, the company bought two nonprofit cooperatives that gave Fleming overnight dominance in the northern California and Phoenix markets but have proved damnably slow to pick up profitmaking ways. Finally, the wholesaler took a 15-week strike last year, which chipped at least 30 cents off its 1988 per-share earnings, now estimated at $2.30.

Danny Turner

Fleming Cos.' Richard Harrison

But the company's fortunes are about to change. Two fresh acquisitions, Malone & Hyde and Godfrey Co., give Fleming strength in healthy parts of the country, and both are highly profitable. At long last, too, the troublesome co-ops are beginning to pull their own oars.

Further, major retail chains are farming out more and more of their distribution business, mostly to the biggest firms with sophisticated handling systems. Today, a 600,000-square-foot warehouse costs $60 million, six times more than a few years ago. Says Fleming Chairman Richard Harrison, 65: "The price of poker is going up." The 35-year Fleming veteran directed the expansion drive but managed to keep the balance sheet sound. Once the company's planned stock offerings are completed, its debt-to-capital ratio will be 54%.

Analysts are confident that Fleming will earn about $3.30 per share this year, and that means, given its price/earnings ratio of nearly 15 on estimated 1988 earnings, the stock could easily surpass a price of $42 before 1990 arrives.

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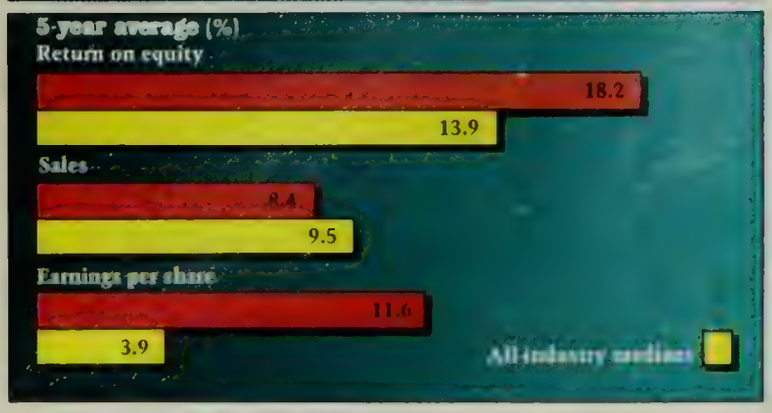

Drought or no drought, in a "business of brands" the big boys will always stand out.

By Janet Novack

FOR BRANDED FOOD COMPANIES, 1988 was a year of famine into feast. At midyear the group lagged the market, held back by misplaced fears that a worsening drought in key farm areas would squeeze margins. Then the stocks took off, fueled b spectacular takeovers, such as Kohlberg Kravis Roberts' $2 billion leveraged buyout of RJR Nabisco.

By year's end 8 companies on our 1988 list of 44 had eith changed hands or seemed likely to do so. Through it all, mo

Seeds of a turnaround

Pioneer Hi-Bred International Inc.—the nation's leading supplier of hybrid corn seed—is a proud Iowa institution. But in recent years it's had about as much investment allure as a bushel of Iowa farm loans.

From fiscal 1985 to 1987, Pioneer's earnings fell 47%, to $1.69 a share, as the federal government required farmers on the subsidy train to idle more of their fields. Fewer acres means fewer seeds planted. What's more, as farmers cut costs, they turned to Pioneer's cheaper rivals, cutting its market share 3.5 percentage points, to 34.5% of the business. Result: In early December 1988 Pioneer's stock traded at 32, off 16% from its 1985 close. By contrast, the S&P foods index rose 76% in the same period.

Thomas Urban of Pioneer Hi-Bred Curt Mass

But the 1988 drought and a heightened concern for stockholders have changed the outlook. The drought cut corn stockpiles by two-thirds, so Washington will allow acreage to climb about 13% in 1989. That means seed demand is set to rise, and Pioneer, headed by Chairman Thomas Urban, will be the biggest single beneficiary. Meanwhile, Pioneer has cut overhead and has finally ditched a misguided venture into computers that cost it almost $1.25 a share over the last three fiscal years.

In fiscal 1988 (ended in August) Pioneer earned $65 million, or $2.05 per share, on sales of $875 million. But Prudential-Bache analyst John McMillin now sees net of $2.40 a share in fiscal 1989, and in 1990—the real turnaround year—$3.75.

One sign of Pioneer's long-term staying power is that even during its lean years the company has pumped more money—some 6% of sales in 1988—into research and development. It now has some promising new hybrids that should give it a bigger advantage over rivals as seed demand firms again.

What could go wrong? If there's a drought in 1989, Pioneer might not have enough seed to sell in 1990. (It is planting extra acres in 1989 as a hedge, but will use up its stockpiles this year.) And there's always the danger that Washington will fiddle with farm programs again, playing havoc with the entire market. So no guarantees, but lots of potential.

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One Performan
Be Called On A

The problem with "hot" sports cars, of course, is that they're not so hot in nasty weather. And they're touchy on tough terrain.

Two excellent reasons why enthusiasts who confine their driving to the real world would do well to consider the Subaru XT-6.

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FOOD PROCESSORS

large branded food producers continued to churn out the kind of predictably strong earnings and return on equity that make them such tempting targets.

Will the takeover action change the outlook in this sector much? Probably not. "It's a business of brands," says General Mills Grocery Products Food Group President Arthu Schulze. "Whether Maxwell House is owned by [an indepe dent] General Foods or by a General Foods owned by Phili Morris doesn't make any difference." Of course, the compet tive landscape could change if merged companies wind u

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Food commodities													
Savannah Foods	•/•	1	19.1%	11.4%	47.0%	1.5%	1	13.1%	10.7%	4	–10.8%	6.8%	$891
Pioneer Hi-Bred Intl	82/•	2	17.1	11.3	4.8	7.1	2	11.7	4.2	2	1.6	14.8	875
Intl Multifoods	52/73	3	13.1	10.0	27.2	2.0	3	9.0	18.7	3	–0.5	–40.9	1,801
Archer-Daniels	•/•	4	10.5	14.5	25.5	5.0	4	8.4	19.9	1	12.6	28.9	7,183
Medians			**15.1**	**11.4**	**26.4**	**3.5**		**10.3**	**14.7**		**0.6**	**10.8**	
Meatpacking													
Pilgrim's Pride	•/•	1	68.4%[b]	def	176.4%	def	3	12.6%	20.1%	1	65.1%[d]	P-D	$506
Hudson Foods	•/•	2	44.9	5.3%	175.1	0.7%	5	9.9	28.0	4	28.2[c]	–70.9%	549
Tyson Foods	•/•	3	30.7	30.2	64.6	4.2	1	29.2	8.4	2	50.5	19.8	1,936
Holly Farms	46/DP	4	18.4	16.5	48.8	3.3	7	3.6	16.8	5	25.3	2.1	1,704
Smithfield Foods	•/•	5	17.1	36.1	61.8	2.1	2	22.2	–18.8	3	43.9	105.8	813
United Brands	56/3	6	13.3	16.0	91.8	1.9	9	–1.2	6.4	6	11.9[d]	30.2	3,442
Geo A Hormel	•/•	7	12.4	16.2	5.2	2.6	4	10.3	7.9	7	11.4	4.7	2,293
Thorn Apple Valley	•/•	8	1.0	12.1	86.2	0.7	8	–0.8	–1.7		NM	D-P	591
Wilson Foods	•/•	9	def	9.3	82.6	0.5	10	–10.6	–1.8		NM	62.5	1,324
IBP	•/•		NA	12.3	82.2	0.6	6	7.1	17.2		NA	26.6	8,658
Medians			**17.1**	**14.2**	**82.4**	**1.3**		**8.5**	**8.2**		**25.3**	**23.2**	
Branded foods													
Kellogg	•/•	1	40.4%	38.2%	28.4%	10.9%	8	10.5%	16.1%	7	17.3%	21.0%	$4,222
Ralston Purina	67/51	2	35.2	41.1	143.6	6.6	24	4.5	0.1	1	50.7	–22.6	5,876
Philip Morris Cos	45/15	3	28.4	33.2	70.9	9.3	2	22.1	8.0	4	20.6	31.2	24,250
Dean Foods	•/•	4	23.2	17.8	18.4	2.8	3	14.2	9.6	12	11.9	9.2	1,573
HJ Heinz	•/•	5	23.0	26.0	33.3	7.4	23	4.8	11.9	9	12.8	17.1	5,376
PepsiCo	28/41	6	22.4	28.5	84.5	5.9	15	7.9	10.3	3	25.0	28.0	12,290
RJR Nabisco	60/33	7	21.2	22.9	95.3	8.1	5	12.9	5.2	14	11.3	17.4	16,657
ConAgra	64/61	8	21.1	20.9	59.8	1.7	1	39.4	7.6	5	19.2	14.5	9,828
Quaker Oats	85/80	9	20.6	19.9	23.9	4.8	7	10.6	16.2	2	27.7	3.0	5,494
Kraft	•/•	10	20.5	61.8	35.6	10.6	20	5.4	11.8	6	18.8	163.7	10,856
Sara Lee	48/46	11	20.2	21.0	64.2	3.1	14	8.3	14.5	13	11.8	22.0	10,775
Wm Wrigley Jr	•/•	12	19.5	29.9	0.0	9.9	17	6.1	14.6	8	16.3	34.4	873
Flowers Industries	•/•	13	19.3	21.9	49.6	5.6	6	11.0	–6.4	15	10.7	53.0	741
Hershey Foods	76/86	14	18.5	25.0	34.2	9.6	11	8.9	–9.3	17	10.1	44.4	2,162
CPC International	80/82	15	17.9	26.3	58.3	6.2	25	3.6	–9.1	10	12.5	–14.5	4,585
Curtice Burns Foods	•/•	16	17.1	18.7	200.2	2.1	18	5.6	7.2	20	3.1	45.6	705
Pillsbury	58/75	17	16.6	5.2	72.4	1.1	4	13.6	0.3	19	8.2	–62.9	6,217
McCormick & Co	•/•	18	16.2	12.2	57.4	3.0	12	8.8	10.6	22	–0.6	5.0	1,159
Campbell Soup	•/•	19	16.0	14.0	27.7	5.0	10	9.1	8.4	16	10.2	–1.8	4,869
Borden	71/66	20	15.5	18.0	70.9	4.2	13	8.4	16.4	11	12.5	17.4	7,064
Universal Foods	54/NA	21	14.1	16.2	53.4	3.8	16	7.1	1.6	21	1.1	19.1	721
Gerber Products	56/74	22	12.5	14.3	41.5	4.7	22	5.2	7.1	24	–13.0	93.4	1,003
Lancaster Colony	31/22	23	10.5	16.0	36.9	4.5	21	5.3	6.6	23	–11.0	13.4	459
IC Industries	33/45	24	7.1	17.3	68.6	7.6	26	1.8	–9.2		NM	53.0	3,700
American Maize	78/•	25	5.4	6.2	81.8	1.8	9	10.3	7.6		NM	–37.2	538
Castle & Cooke	•/•		NA	19.7	41.0	5.1	27	0.9[c]	25.5		NM	278.6	2,182
General Mills	72/82		NA	73.7	43.7	9.4	19	5.5	0.3	18	9.2	118.1	5,284
Medians			**19.3**	**20.9**	**53.4**	**5.1**		**8.3**	**7.6**		**11.3**	**19.1**	
Industry medians			**18.2**	**17.8**	**57.4**	**4.2**		**8.4**	**8.0**		**11.6**	**19.1**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth. For further explanation, see page 77

ronically, 1988's drought ould lead to even fatter rocessor margins late this ear. How so? Given a ormal 1989 harvest, grain rices should fall. But the ackagers won't roll back heir price hikes.

ith so much debt that they cut back on arketing spending or otherwise milk eir brands.

As for the drought's effects, prices of me food grains did rise 50% or so. But ost packaged-food companies were le to pass these costs on to consumers. ne reason for that pricing flexibility is at grains typically account for less an 10% of the retail cost of baked ods and cereals. Also, as Piper, Jaffray Hopwood food analyst George Dahlan observes, "The media provided exptional free advertising for price hikes putting every dry cornfield in Iowa on e evening news."

In the unlikely event of another ought, packagers could face scattered ortages. Oats, newly in vogue with the alth-conscious, are causing particular pply concerns. Ironically, 1988's ought could actually lead to even fatter ocessor margins late this year. How so? iven a normal 1989 harvest, grain ices should fall in the second half of e year. But the packagers won't roll ck their price hikes.

Still, the branded group should show wer percentage earnings gains in 1989 an in 1988, largely because 1988 comrisons benefited from lower tax rates. et the 1989 gains still should average in e low to middle teens. True, at-home od consumption is barely growing. But ading processors will continue, rough aggressive marketing, acquisions and line extensions, to consolidate eir market share in what is becomg—in one category after another—an igopolistic industry. And they'll be shing even more high-value-added oducts, particularly microwavable and gle-serving packaged foods. "The owth in single-serve hand-held prodts has been driving our categories as uch as anything I know. People are azing through the kitchen," says Sara e Chairman John Bryan Jr. ■

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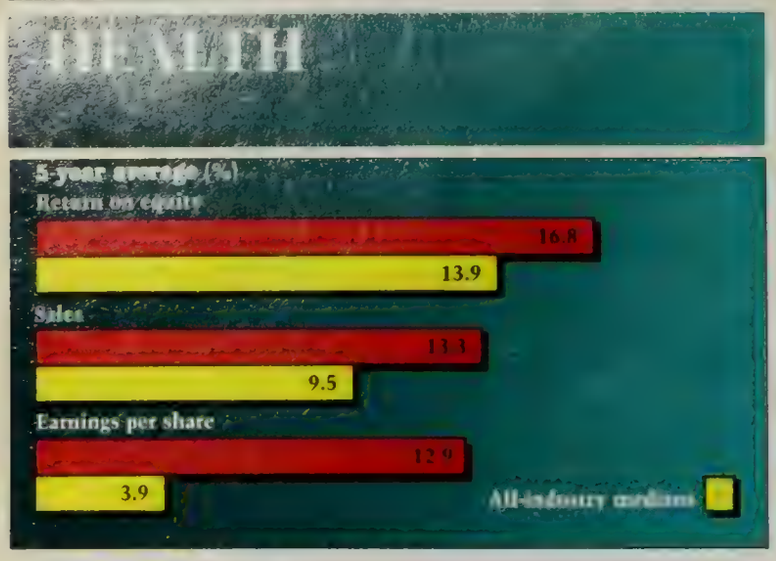


More patients and fewer beds. Those were the basic factors behind a bottoming out in this industry.

By Michael Fritz

AFTER THREE YEARS of precipitous declines the drop in hospital margins is easing. In fact, three of the five hospital companies on our list—Hospital Corp. of America, National Medical Enterprises and Humana—posted improved profit margins. This trend should bode well for nearly all sectors of the health industry in the year ahead.

What's behind the improvement? Growing ranks of the elderly and contraction in the number of hospital beds ha ended the rise in vacancy rates. Make no mistake, hospit companies still face tough going. New admissions are comi from low-margin Medicare patients rather than from priva patients, whose numbers are still declining. Still, Medica rates are up 3.3% this year, versus the previous rise of arou 1%, and that will help to narrow the gap.

So, with a growing sense that the worst may be ov executives at Health Management Associates and Chart Medical wasted little time in capitalizing on the market dismal view of hospital stocks. They took their compani private through leveraged buyouts. Hospital Corp. of Ame ca's shareholders are expected to vote on a $3.6 billion LI proposal in February.

Hospital companies continue to trim their exposure to lo margin general hospitals by building outpatient volume a by expanding into mental health and other specialty hospita not subject to fixed fee reimbursements. Example: About h of National Medical's income now comes from psychiatri drug abuse and rehabilitation hospitals, versus 16% in 198

Meanwhile, a shakeout continues among health maint nance organizations, where overeager expansion and po management have caused severe losses and forced mergers. contrast, firming hospital admissions and further cost-cu ting helped supply companies show 23% earnings growth only a 14% sales gain during the year.

Drugmaker profits were up moderately in the face of gro ing generic competition. An overall flat dollar didn't provi the currency lift of the past two years. Nearly half of the t 30 U.S. drugs are off patent and another 200 should come by 1995. Lower manufacturing costs and sales of high-marg cardiovascular drugs—like Genentech's Activase a Merck's Vasotec—are helping. ■

Thank you, Medicare

Just two years ago Silver Spring, Md.-based Manor Care, Inc. was a big Wall Street winner. A mere $100 invested in this operator of nursing homes and Quality Inns in 1981 was worth almost $2,000 by 1987, excluding dividends.

But an overly ambitious nursing home expansion program, a $22 million aftertax loss in Beverly Enterprises stock and a writedown for unreimbursed Medicare charges pummeled earnings—from $41.5 million in 1987 to $37,000 last year. Investors dumped Manor Care stock, sending its price down from 19⅜ in the summer of 1987 to 9⅝ last spring.

Shaken, Manor Care Chairman Stewart Bainum Jr., 42, has pared back this year's expansion plans from 16 new nursing homes to 10. That should help stabilize Manor Care's margins and allow Bainum to meet his capital needs largely from internal cash flow.

Manor Care's Stewart Bainum Jr. Rhoda Baer

Bainum's business should also get a lift from changes made last spring in Medicare eligibility requirements and from passage of the Catastrophic Coverage Act. Both will bring more high-margin Medicare business his way.

Until recently, only 2% of all nursing home admissions qualified for Medicare coverage. But under the relaxed new criteria Manor Care's Medicare business has already tripled, from 2.5% last February to 7.5% currently. Prudential-Bache Securities analyst Seth Shaw expects that number to exceed 12% by May and grow to perhaps 20% by May 1990.

Although Washington is not likely to allow Medicare nursing home payments to grow unfettered indefinitely, any move to cut reimbursements won't likely occur for at least two years, says Shaw. For that long, at any rate, Manor Care should have clear sailing.

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Drugs													
American Home Prod	64/NA	1	34.8%	35.8%	1.4%	16.8%	22	1.6%	8.1%	14	9.5%	11.1%	$5,413
Abbott Laboratories	53/69	2	29.9	34.5	14.5	14.8	11	10.5	15.3	4	18.2	20.5	4,865
SmithKline Beckman	74/87	3	28.8	13.3	66.0	4.5	14	8.4	11.9	16	8.7	–60.7	4,671
Marion Laboratories	•/•	4	28.4	46.1	0.0	20.7	2	31.0	22.4	1	56.3	50.0	787
Merck	•/•	5	24.7	53.3	12.0	19.5	12	9.7	20.4	5	18.2	38.8	5,800
Bristol-Myers	69/77	6	24.3	25.0	5.7	13.8	15	8.1	11.6	11	13.1	16.7	5,854
Rorer Group	•/•	7	23.5	14.1	132.6	5.8	7	16.9	8.9	9	14.0	132.1	998
Eli Lilly	65/NA	8	23.1	23.2	11.0	18.4	19	5.0	6.0	13	10.0	14.0	3,932
Pfizer	63/79	9	21.5	19.8	5.9	14.9	16	6.9	10.1	10	13.5	11.4	5,292
Squibb	85/89	10	21.2	27.8	5.5	16.4	20	4.1	21.4	2	22.5	–18.0	2,514
Upjohn	82/•	11	18.1	20.7	14.6	12.8	17	5.7	9.0	6	17.6	16.4	2,692
Cardinal Distribution	•/•	12	17.8	22.5	79.4	2.0	1	34.1	3.6	7	15.4	126.1	604
Schering-Plough	69/75	13	16.0	25.7	12.2	12.9	13	8.5	9.8	15	9.0	29.7	2,893
Warner-Lambert	66/70	14	15.9	37.7	33.7	8.6	23	1.0	12.8		NM	20.6	3,820
Bindley Western Inds	•/•	15	15.1	3.9	122.6	0.1	6	17.8	26.3	20	–2.8	–65.8	1,212
Bergen Brunswig	80/83	16	14.6	18.2	98.3	1.0	4	26.5	3.3	19	0.3	117.6	3,486
Carter-Wallace	47/63	17	14.4	15.8	7.7	8.3	10	10.9	7.2	3	20.0	16.3	503
Alco Health Services	78/NA	18	12.7[a]	14.0	64.7	1.0	3	28.4	18.8	8	15.3[c]	11.5	2,059
Durr-Fillauer	61/54	19	12.7	8.6	65.4	0.9	5	21.7	9.8	17	8.1	–16.0	571
McKesson	72/58	20	12.6	13.4	60.8	1.3	8	13.8	3.4	18	5.2	8.3	7,185
American Cyanamid	39/46	21	12.1	16.2	26.5	6.7	21	3.1	10.4	12	12.7	15.6	4,514
National Intergroup	68/48	22	def	def	65.8	def	18	5.2	–32.3		NA	D-D	2,922
AH Robins	84/87	23	def[a]	NE	NE	def	9	12.1	11.5		NM	P-D	928
Medians			**17.8**	**19.8**	**14.6**	**8.3**		**9.7**	**10.1**		**12.9**	**15.6**	
Medical Supplies													
Pall	34/42	1	24.1%	21.4%	12.3%	13.4%	5	14.8%	11.4%	8	13.3%	18.3%	$429
CR Bard	•/•	2	20.1	24.8	11.1	10.2	9	11.7	18.5	5	17.8	27.6	733
Johnson & Johnson	33/27	3	19.1	27.5	19.9	10.8	12	6.4	14.2	12	5.8	25.5	8,828
Cooper Cos	•/•	4	18.5	def	164.8	def	1	34.9	75.4	7	15.8	P-D	919
Medtronic	•/•	5	18.4	23.4	1.1	13.0	13	5.7	34.5	11	7.8	27.6	714
Hillenbrand Inds	43/51	6	18.0	22.5	33.9	8.4	7	13.2	20.0	9	13.2	31.0	836
Bausch & Lomb	82/80	7	17.6	16.2	29.7	10.2	10	9.7	13.5	6	16.9	16.3	925
Millipore	NA/NA	8	14.9	16.2	30.1	8.8	6	14.3	21.3	10	10.5	20.8	606
Healthco International	•/•	9	14.4	10.7	42.2	3.3	8	12.5	13.4	1	51.8	66.4	443
Owens & Minor	64/66	10	13.4	11.7	49.4	1.2	4	22.2	27.1	3	19.0	4.9	698
Becton Dickinson	•/•	11	12.7	18.5	53.9	9.5	11	6.6	8.1	2	21.6	17.3	1,709
Baxter International	•/•	12	12.2	10.1	46.6	5.5	2	33.6	11.2	13	3.9	25.0	6,683
Corning Glass Works	30/34	13	10.9	19.3	29.4	14.1	14	5.4	6.9	4	18.7	90.5	2,118
Henley Group	26/41		NA	def	12.0	def	3	31.0	–19.8		NA	D-D	2,788
Medians			**17.6**	**17.4**	**29.9**	**9.2**		**12.9**	**13.9**		**15.8**	**22.9**	
Health care services													
United HealthCare	•/•	1	41.8%	def	100.1%	def	1	163.0%	17.3%		NM	D-D	$465
US Healthcare	•/•	2	36.3	5.8%	0.0	1.3%	3	67.2	21.6	3	22.7%	–78.3%	689
Manor Care	81/81	3	26.8	def	231.0	def	9	13.7	8.2	2	28.0	P-D	549
Humana	87/•	4	24.0	22.2	112.5	6.6	10	13.4	21.3	4	–4.1	23.7	3,435
National Medical	•/•	5	14.4	15.8	154.2	4.5	7	19.6	12.9	5	–7.3	124.4	3,308
American Medical	•/•	6	12.2	11.1	174.7	3.2	8	19.6	15.1		NM	–4.0	3,112
Hospital Corp	•/•	7	11.3	13.9	139.5	5.9	11	11.2	–18.9		NM	D-P	4,012
Universal Health	•/•	8	9.7	0.0	142.0	def	5	23.0	8.5	6	–40.3	P-Z	548
Beverly Enterprises	•/•	9	7.9	def	172.6	def	6	21.2	–5.3		NM	D-D	2,008
Maxicare Health	•/•	10	def	NE	NE	def	2	70.6	28.8		NM	D-D	1,885
FHP International	•/•		NA	52.3	121.5	3.3	4	39.2	41.4	1	47.3[d]	217.3	549
Medians			**13.3**	**5.8**	**139.5**	**1.3**		**21.2**	**15.1**		**–40.3**	**–78.3**	
Industry medians			**16.8**	**16.2**	**33.8**	**5.8**		**13.3**	**11.8**		**12.9**	**16.3**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. P-Z: Profit to zero. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth. For further explanation, see page 77.

Cloning profits

After years of high hopes and low hypes, more than a score of bioengineered drugs, plants and animals will reach the market within the next three years. That is why FORBES' Annual Report on American Industry includes here, for the first time, a biotechnology group. Many of the firms in the accompanying table are poised for extraordinarily rapid growth as they move from developers to producers and marketers. All of these startups fall far short of the minimum criteria required for this survey. Yet we include the biotechnology industry because it is now uniquely positioned—perhaps more than any other group of companies—to change fundamentally the way we live.

That said, 1988 was a sobering year of smaller expectations. Genentech's much-trumpeted blood clot dissolver for heart attack patients—tissue plasminogen activator (t-PA)—became one of the bestselling first-year drugs in the history of the pharmaceutical industry. Yet so overblown were Wall Street's expectations that Genentech's stock was pounded, dropping 65% on the year. Its market capitalization, over $5 billion in 1987, is now $1.3 billion.

In many ways, Genentech was the lucky one. At least it is earning a profit—even after a $25 million earnings hit to cover excess inventory—and producing enough cash to finance its growth. The sad truth for the majority of biotech outfits is that there isn't enough cash to go around. With little investor interest in their stocks, companies are playing a waiting game, hoping that the money they raised in better times will see them through to market.

The less lucky scrambled to forge crucial ties with major pharmaceutical companies. With only $16 million in cash and several years to go before it gets to market, Bio-Technology General could run out of money before its big hope ever reaches the market. In contrast, Chiron, a developer of vaccines against hepatitis and herpes, bought some time by selling Ciba-Geigy 1 million new shares.

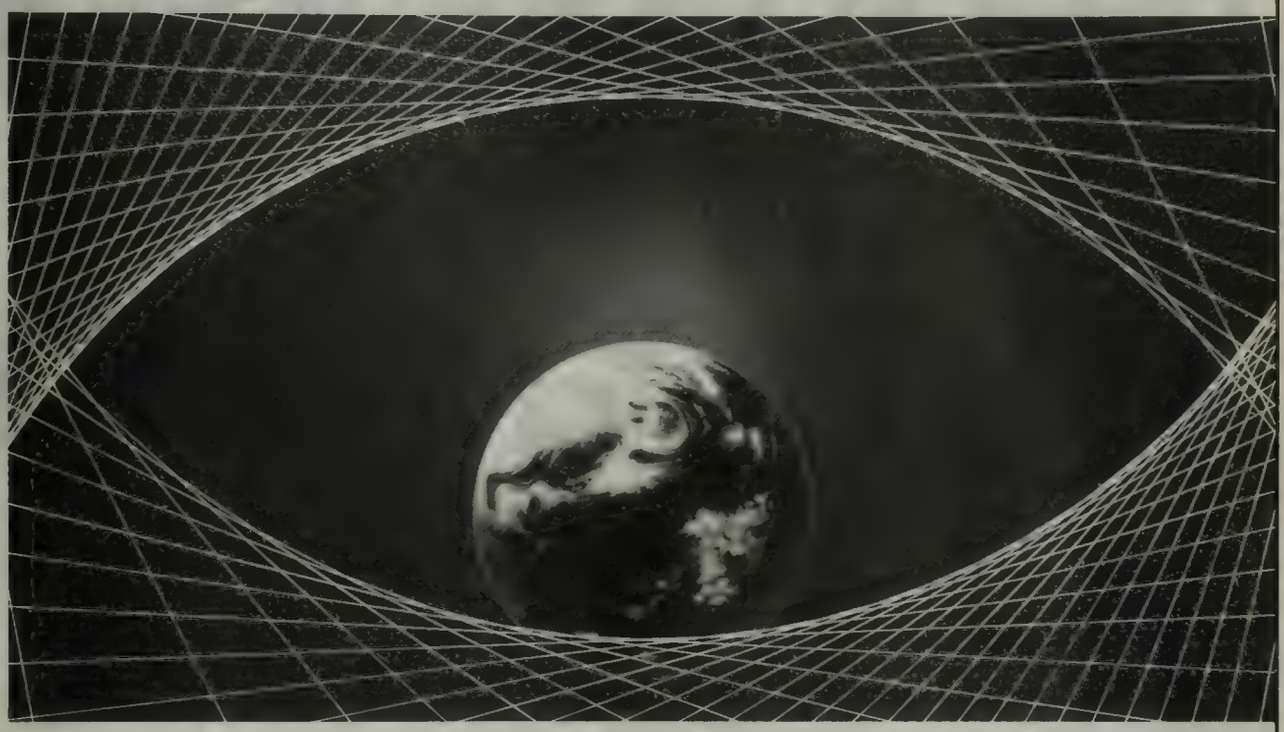
Patents continued to occupy biotech executives. Amgen is the outfit with the greatest potential for long-term profits, and its stock is one of the few trading above precrash levels. However, Stuart Weisbrod of Prudential-Bache is worried Amgen could tumble if it doesn't win or compromise in its current patent infringement battle over erythropoietin, a protein that stimulates the growth of red blood cells.

As clinical drug trials proceed toward marketing approval, analysts will be focusing on cash—how much of it companies have on hand and how fast it is being burned. The trick is to have raised enough money when the market was frothy. As Cetus Corp. cofounder Ronald Cape once told the *New York Times*: "The time to take hors d'oeuvres is when they're passing them around."—**Gary Slutsker**

Yardsticks of management performance	**Profitability**					**Growth**						**Sales**
	Return on equity					Sales			Earnings per share			
Company	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
ALZA	1	33.8%	11.2%	55.1%	22.9%	21	25.1%	14.0%	3	33.9%	31.6%	$73
Diagnostic Products	2	24.0	23.8	0.0	26.2	22	24.8	28.3	4	23.9	36.2	44
Life Technologies	3	18.1	14.8	6.6	9.3	23	19.5	8.4	5	15.1[d]	11.7	125
Applied Biosystems	4	15.2[b]	17.2	0.0	13.0	6	88.6[d]	55.3	2	135.8[d]	87.5	142
ICN Biomedicals	5	6.6	11.1	54.0	8.3	15	48.5	19.7		NM	23.7	50
IGI	6	6.4	3.9	45.8	2.4	2	129.6	–3.1		NM	–50.0	16
Collagen	7	3.9[b]	def	54.5	def	24	17.8[d]	32.8	6	11.0[d]	P-D	32
Enzo Biochem	8	2.9[b]	def	250.9	def	18	40.9[d]	5.0		NM	D-D	9
Synergen	9	def	def	12.4	def	10	74.5	–16.6		NM	D-D	5
Gamma Biologicals	10	def	def	14.6	def	29	6.3	2.9		NM	Z-D	19
Genetics Institute	11	def	def	2.6	def	13	55.2	–7.3		NM	D-D	20
Cetus	12	def[b]	def	70.4	def	26	17.4[d]	–25.6		NM	D-D	33
Amgen	13	def	1.0	9.7	2.7	1	190.8	50.6		NM	150.0	60
Centocor	14	def	2.1	12.5	3.4	7	80.8	35.1		NM	D-P	57
Hana Biologics	15	def[b]	def	19.4	def	17	43.3d	–25.7		NM	D-D	6
Chiron	16	def[a]	def	0.3	def	12	62.4[d]	83.5		NA	D-D	24
Collaborative Research	17	def	def	0.0	def	27	16.9	34.1		NA	D-D	15
Biotech Research Labs	18	def	17.3	11.9	10.3	14	51.1	88.3		NM	366.7	17
Immunomedics	19	def[b]	def	19.6	def		NA	9.7		NA	D-D	4
Integrated Genetics	20	def	def	15.5	def	8	76.4	–5.9		NA	D-D	11
Immunex	21	def	0.5	87.0	1.4	11	70.8	60.0		NA	Z-P	16
Immucor	22	def[b]	6.9	6.1	11.4	20	34.6[d]	23.7		NM	33.0	9
Genentech	23	def	17.0	43.2	19.1	16	47.7	101.0		NM	D-P	330
Genzyme	24	def	0.8	10.5	1.1	19	36.8	38.7		NM	–50.0	21
Damon Biotech	25	def[b]	def	2.7	def	25	17.8	23.0		NA	D-D	7
Molecular Biosystems	26	def	4.2	0.0	19.3	3	125.7	90.8		NM	400.0	5
Calgene	27	def[a]	def	3.4	def	4	119.8[d]	17.2		NA	P-D	23
Synbiotics	28	def	def	1.0	def	9	75.7	15.0		NM	P-D	7
Cambridge BioScience	29	def	def	1.9	def	5	95.3[d]	NA		NA	NA	3
Applied Bioscience Intl		NA	15.8	7.4	8.3	28	13.7	40.1	1	201.2[c]	24.4	43
Industry medians		**def**	**def**	**11.2**	**def**		**48.5**	**23.0**		**NM**	**–50.0**	

Note: These companies are not included in the Growth, Profitability or Stock Market ranking reports. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. Z-D: Zero to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth. For further explanation, see page 77.

There should be more to global corporate banking than good deals



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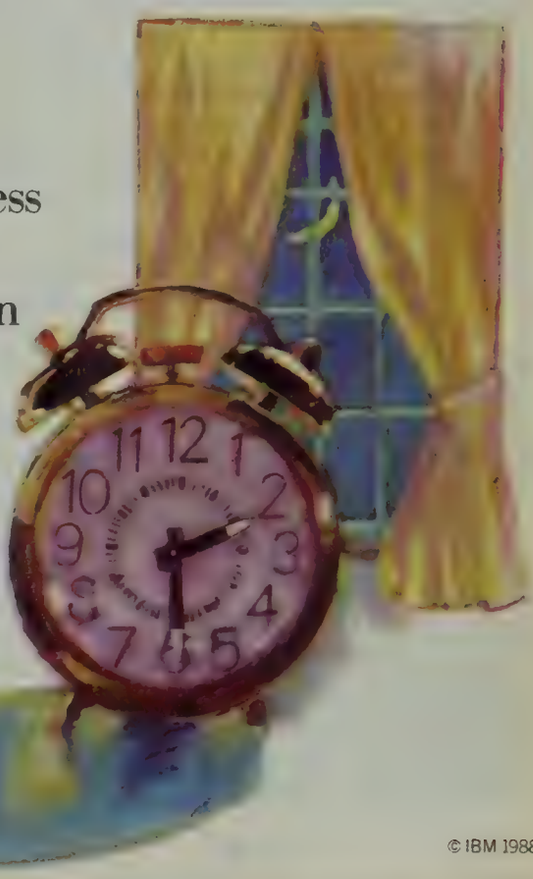

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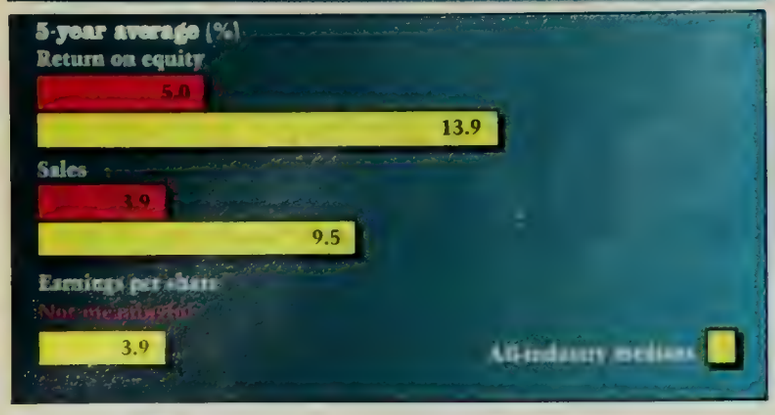
HEAVY EQUIPMENT



Lo, after a decade of misery, the clouds have parted. Prosperity won't last forever, but 1989 looks as solid as can be.

By John H. Taylor

THE COMBINATION OF A weak dollar, increased capit spending and low inflation resulted in the best year nearly ten for this long-suffering industry. At Caterp lar Inc., profits climbed 150% through the third quarter the strength of increased sales of machines, engines a replacement parts. Deere & Co., the world's largest manufa turer of farm equipment, made more than twice as mu money last year as it had made in the prior seven yea combined.

The good times are likely to keep rolling in 1989. T dollar shows no sign of significant improvement, whi means that export demand for U.S.-made products will strong. Better still, American customers, including Ford M tor and Champion International, are themselves in the mid of capital expansion programs. Companies that make man facturing equipment or parts like Cross & Trecker and Ha nischfeger Industries have their largest backlogs in orders many years.

Among the beneficiaries of this capital spending boom a machine toolmakers like Cincinnati Milacron. Nationwid orders increased 72% during the first ten months of 198 versus the comparable period in 1987. A $2 billion backl assures toolmakers a profitable 1989. Says Cincinnati Mil cron Chairman James A.D. Geier: "We haven't seen anythi like it in eight years."

Companies that make abrasives, hydraulic pumps and ot er equipment used in the manufacturing process will also well. They include Norton, Trinova and Parker-Hannifi "We think one of the best ways to play the recovery manufacturing is to invest in these parts suppliers and co ponent producers," says John Mackin, an analyst with Mc gan Stanley.

For makers of farm equipment, 1989 will be the best year a decade. Oddly enough, one of the causes is last yea

A company reborn

A week after William W. Goessel went to work as president of Milwaukee's Harnischfeger Industries in 1982, he discovered the 98-year-old company was in default on about $175 million of loans. Goessel gritted his teeth, closed several plants, laid off nearly half of the company's 6,800-member work force, recruited a new team of managers and discarded Harnischfeger's construction equipment business, even though it had once accounted for almost half the company's sales.

Harnischfeger is a company reborn. Goessel, now chairman and chief executive, has long since repaid the creditors, has made two highly successful acquisitions, has reduced debt to 20% of capital and has started paying quarterly dividends for the first time since 1982. Net profits were only $14.4 million, or 51 cents per share, on $1.2 billion in sales in 1988, but that result includes a one-time $24 million loss to retire some high-priced debt. This year Harnischfeger is expected to earn a record $50 million, or about $1.80 a share.

More than three-quarters of the company's profits come from the two acquisitions Goessel made in 1986. First, he bought Beloit Corp., the country's largest manufacturer of papermaking equipment, and then Lisconn Corp., a fast-growing Washington, D.C.-based maker of defense-related computer systems. The Beloit deal was particularly astute. Goessel got the company at the fire-sale price of $175 million—he sold a 20% interest seven months later for $60 million—and the acquisition coincided with a worldwide boom for paper products.

William W. Goessel of Harnischfeger Industries Scott Witte

Now Goessel is concentrating on reducing the company's vulnerability to economic downturns. He is pushing the sale of spare and replacement parts for existing machinery, a business where demand is steady even during a recession. He is also scouting for acquisitions. "By creating more balance," he says, "we can accommodate the economic vicissitudes we know are coming."

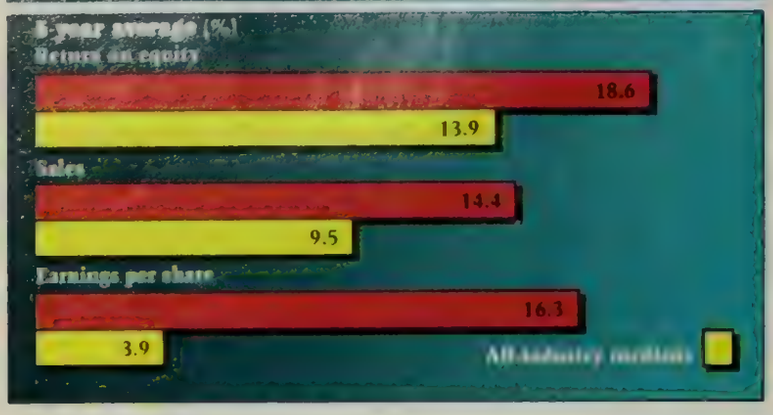
ought, which drove up farm prices and eliminated much of e oversupply of wheat, corn and soybeans. R. Gerald Saylor, ector of market economics at Deere, says total acreage nted in 1989 will rise to 335 million acres, a 10% increase er 1988. "The financial health of the American farmer is as lid as it has been in some time," Saylor says.

Is there anything on the horizon that could stall the recov- for heavy equipment makers? The traditional bugaboos: a recession, a sharp increase in interest rates or a rapidly strengthening dollar. Many of these companies are highly dependent on the automobile and construction industries. A downturn in either business would severely affect companies like Cross & Trecker and Masco Industries. Says Eli Lustgarten, an analyst at PaineWebber, "A lot of these companies have come back from nowhere, but you still have to watch it." Cyclical is still cyclical. ■

ardsticks of nanagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
ompany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
gricultural													
llied Products	49/●	1	2.8%	def	99.5%	def	1	19.8%	12.8		NM	P-D	$550
eere	78/●	2	def	13.7%	34.6	5.1%	3	–2.8	43.1		NM	D-P	5,201
arity Corp	55/36		NA	22.8	105.8	3.5	2	–2.2	38.7		NM	D-P	2,170
edians			0.6	13.7	99.5	3.5		–2.2	38.7		NM	P-D	
uilding and mining													
B Foster	77/154	1	1.9%	26.8%	11.4%	3.7%	3	–3.2%	–13.4%		NM	D-P	$250
aterpillar	●/●	2	def	16.6	34.1	6.0	2	6.2	28.2		NM	500+%	9,886
lark Equipment	72/22	3	def	5.8	49.4	1.7	1	6.5	22.1		NM	D-P	1,219
edians			def	16.6	34.1	3.7		6.2	22.1		NM	500.0+	
ndustrial													
acco Industries	45/14	1	22.3%	20.0%	103.8%	7.1%	21	3.2%	14.5%	4	20.5%	16.8%	$584
metek	76/74	2	19.3	13.8	57.6	6.2	13	7.8	–6.6	14	6.4	–13.6	558
aman	45/25	3	17.4	16.9	71.1	3.5	11	9.9	12.2	5	18.2	15.9	764
llinois Tool Works	●/●	4	16.7	21.4	37.7	7.0	1	28.1	15.0	6	16.4	21.3	1,881
entair	51/82	5	15.8	20.0	31.3	5.0	3	23.3	1.9	15	3.8	153.9	799
tanley Works	39/42	6	15.6	15.8	50.7	5.3	8	12.3	11.4	7	15.4	19.8	1,881
rinova	79/81	7	14.6	13.2	44.1	4.5	12	8.5	16.6	2	44.7	25.6	1,854
asco Industries	NA/NA	8	14.5[a]	13.2	241.4	3.7	2	25.2	26.1	1	45.8[c]	–26.1	1,643
ecumseh Products	●/●	9	14.2	12.2	1.6	6.6	18	4.6	20.0	13	7.0	8.8	1,069
arker-Hannifin	60/58	10	12.9	13.1	48.0	4.6	7	12.4	20.0	10	11.9	15.6	2,335
nterlake	63/14	11	11.6	17.9	29.8	5.8	27	–0.1	10.9	3	42.7	28.4	869
arsco	34/23	12	11.4	15.4	29.6	5.2	15	5.6	17.8	8	14.6	20.1	1,299
urn Industries	73/77	13	10.2	10.8	12.6	4.9	22	2.6	1.0	16	2.0	9.8	419
incoln Electric	●/●	14	10.1	16.4	4.3	6.8	19	4.0	22.7	11	9.7	71.1	495
undstrand	27/22	15	9.9	def	48.2	def	10	10.0	3.6	17	–9.4	P-D	1,435
hittaker	58/60	16	9.4	12.6	19.9	4.9	38	–27.5	13.8		NM	–6.6	480
ooper Industries	51/39	17	9.3	12.8	71.3	5.1	6	13.0	19.1	9	12.1	21.9	4,074
eneral Signal	NA/NA	18	9.0	2.8	10.2	1.5	28	–0.1	10.5	18	–9.8	–60.3	1,719
oster Wheeler	52/●	19	7.3	1.6	42.0	0.7	35	–5.8	–13.0	20	–37.3	–71.8	1,077
earings	●/●	20	5.7	12.7	0.0	2.8	14	7.4	12.6	19	–15.3	143.8	561
rane	50/47	21	5.1	17.9	52.5	4.1	5	16.0[d]	–9.8	12	9.1[c]	7.7	1,108
agle-Picher Inds	60/62	22	5.0	20.4	42.6	5.7	17	5.2	14.3		NM	7.3	749
alley Industries	NA/NA	23	4.7	1.4	138.4	1.0	26	0.1	21.1		NM	D-P	351
ngersoll-Rand	●/●	24	4.5	12.5	23.9	5.0	24	1.3	10.3		NM	39.6	2,949
ennametal	●/●	25	4.3	14.4	39.7	5.8	25	1.2	20.2		NM	35.7	438
ombustion Eng	●/●	26	2.7	2.1	37.2	0.5	33	–4.5	19.8		NM	–65.0	3,456
orton	●/●	27	0.8	16.0	27.1	6.0	29	–0.2	19.2		NM	D-P	1,402
tewart & Stevenson	●/●	28	def	20.3	42.5	4.3	30	–0.6	42.3		NM	152.8	392
ross & Trecker	●/●	29	def	12.6	20.8	5.5	9	12.3	1.4		NM	D-P	428
resser Industries	43/49	30	def	7.7	17.4	3.1	32	–3.3	21.6		NM	D-P	3,834
imken	61/●	31	def	5.4	16.8	3.3	20	3.7	30.5		NM	D-P	1,479
mpco-Pittsburgh	75/●	32	def	def	46.2	def	23	2.4	–19.7		NM	D-D	248
cDermott Intl	73/PD	33	def	def	148.4	def	34	–5.8	–18.3		NM	D-D	2,302
arnischfeger Inds	70/46	34	def	8.0	18.9	2.3	4	19.9	26.3		NM	500.0+	1,153
incinnati Milacron	●/●	35	def	def	76.9	def	16	5.2	4.2		NM	P-D	862
oxboro	●/●	36	def	def	3.1	def	31	–2.1	0.3		NM	D-D	523
odd Shipyards	35/PD	37	def	def	253.6	def	36	–14.4	8.2		NM	D-D	373
llis-Chalmers	●/●	38	def[a]	NE	NE	def	37	–22.3	–19.4		NA	D-D	399
edians			6.5	12.7	38.7	4.4		3.9	13.2		–15.3	16.4	
ndustry medians			5.0	12.8	38.7	4.2		3.9	14.0		NM	19.9	
ll-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

●90% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth. For further explanation, see page 77.

INDUSTRIAL AND OFFICE SERVICES



These companies do what no one else wants to do or knows how to do. By doing the difficult or the unpleasant they profit handsomely.

By Jason Zweig

"YOU'VE GOT TO BE KIDDING," we said after seeing one the names that was added to this group since last ye Hartford Steam Boiler Inspection & Insurance Co. B then we realized that Hartford, with its stellar 32% return equity, is the very embodiment of an industrial sector th profits handsomely by hauling garbage, killing termites a washing factory floors.

With polluted beaches and holes in the ozone on everyon mind, the environment has become a hot topic again, a these companies should benefit accordingly. The expandi market for waste-to-energy incinerators continued to prop Ogden Corp., Browning-Ferris Industries and Wheelabrat Technologies, which was merged into Waste Management August. Meanwhile, Browning-Ferris sought to ride the wa of public concern by naming William Ruckelshaus, form head of the Environmental Protection Agency, to repla Chairman Harry J. Phillips Sr., under whose rein the compa had been charged with price-fixing, antitrust violations a environmental abuse.

The threat of computer "viruses" that can immobili whole computer networks could mean opportunity for co panies like Automatic Data Processing and Computer Sc ences Corp., which sell their ability to process and store da securely. And since the paperless society remains as distant mirage as ever, Deluxe Corp., the nation's largest printer

It's alive!

When last we looked at Savin Corp. (FORBES, *May 16, 1988*), it was barely clinging to life. Dependent on Japanese suppliers after a disastrous attempt to manufacture its own products, the marketer of photocopiers was being buried by the collapse of the dollar against the yen.

In 1987 Savin peeled paper-thin pretax earnings of $423,000 off sales of $356 million while diluting existing stockholders' equity with issue after issue of new common stock. By last March Savin had 60 million shares outstanding, up from 7 million shares in 1982.

But the new capital, and the toughness of Chairman David Sadler, are paying off. Since taking over in March 1986, he slashed expenses by 20%. Last summer Savin began to nd its dealer network by 10% and added products like ile machines. Color copiers will follow. Another boost r the company came in July with a $7 million deal to supply copiers to the General Services Administration shington.

David Sadler of Savin Corp Jodi Buren

Results? Since 1986 debt has fallen 90%, to $19 million—and the stock dilution, now down to a trickle, should dry up entirely by spring. Sales will likely top $360 million in 1988. After a $2.1 million loss in the first quarter, Savin turned around, earning $3.8 million in the third quarter. With the stock selling at 28 cents on the New York Stock Exchange, here's a turnaround that's already in progress but that Wall Street hasn't yet spotted.

The Panasonic Boom: the next generation in business.

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INDUSTRIAL AND OFFICE SERVICES

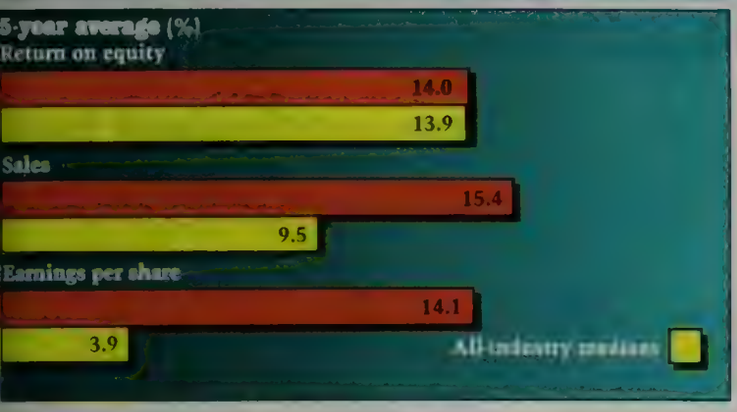
checkbooks, enjoyed sales growth of 20%.

The "simplification" promised by the Tax Reform Act of 1986 continued to complicate the lives of businesses and individuals, and companies in the tax field thrived. Earnings at H&R Block, the largest tax preparer in the U.S., leaped 18% on a sales increase of 13%. In the service economy it clearly pays to sell services. ■

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Industrial services													
Rollins	•/•	1	38.4%	48.1%	0.0%	6.6%	12	7.1%	7.7%	5	26.1%	15.4%	$376
JWP	•/82	2	28.7	22.2	151.1	3.2	1	71.3	38.0	3	39.7	26.1	800
Ecolab	•/•	3	25.2	9.7	72.0	3.3	9	13.5	30.8	1	42.5[d]	–73.4	1,180
CDI Corp	81/80	4	23.4	27.4	75.2	2.0	6	16.0	32.0	4	30.0	100.9	655
Hartford Steam Boiler	NA/NA	5	23.3	31.6	20.2	15.5	7	14.6	7.0	2	41.3	21.2	443
Browning-Ferris Inds	•/•	6	22.8	23.8	59.4	10.8	5	17.7	27.3	8	17.3	28.8	1,971
Waste Management	•/•	7	21.3	22.5	45.6	12.8	3	23.7	30.7	6	24.7	–8.5	3,352
National Service	22/24	8	17.7	17.0	3.8	6.1	10	9.2	6.6	10	8.7	13.6	1,414
Millipore	NA/NA	9	14.9	16.2	30.1	8.8	8	14.3	21.3	9	10.5	20.8	606
Johnson Controls	38/27	10	13.8	13.6	41.9	3.3	4	19.0	15.8	11	3.1	28.6	3,100
Ogden	•/•	11	13.8	14.9	60.5	6.4	14	–19.9	18.1		NM	–51.9	969
Honeywell	19/24	12	5.8	6.0	32.8	1.9	13	2.5	14.0		NM	D-P	7,198
CRS Sirrine	•/•	13	def	14.3	4.5	1.4	2	26.9	64.5		NM	D-P	551
VWR Corp	•/•		NA	12.4	60.2	1.4	11	9.1	14.5	7	23.8[c]	–34.2	594
Medians			**21.3**	**16.6**	**43.7**	**4.7**		**14.4**	**19.7**		**20.5**	**21.0**	
Office products, services													
Microsoft	•/•	1	73.9%	43.2%	0.0%	21.0%	1	65.9%	74.1%	1	72.6%	78.5%	$665
General Motors EDS	•/•	2	40.2	36.5	32.4	8.3	2	61.8	7.3	2	48.8	32.4	4,624
Commerce Clearing	43/45	3	37.5	28.9	7.4	9.1	25	9.7	9.0	19	14.1	4.5	596
Continental Info Sys	•/•	4	34.1	0.2	500.0+	0.0	3	44.5	115.1	6	30.9	–99.1	733
Deluxe Corp	•/•	5	33.3	28.6	2.1	12.7	21	11.6	19.6	13	19.6	0.6	1,109
Comdisco	•/•	6	29.3	3.6	105.2	1.3	12	19.3	13.5	8	24.3	–81.9	1,309
Kelly Services	•/•	7	28.6	32.2	0.0	4.7	8	23.2	12.7	5	32.3	30.5	1,259
H&R Block	40/24	8	23.3	23.8	1.3	10.9	10	20.0	13.2	21	12.7	17.8	790
Herman Miller	•/•	9	21.8	19.1	25.7	5.9	16	14.6	23.4	15	16.3	26.8	743
Olsten	•/•	10	21.1	26.4	80.5	3.3	6	28.2	31.4	4	36.4	38.5	493
Pitney Bowes	•/•	11	20.4	22.2	25.4	10.0	26	8.6	6.9	12	19.6	26.5	2,320
United Stationers	•/•	12	19.8	17.4	36.9	2.7	7	25.4	17.3	20	13.8	51.5	856
HON Industries	89/•	13	19.8	18.6	31.9	4.1	18	14.1	6.6	10	21.8	–2.4	571
Computer Associates	•/•	14	19.0[a]	24.6	21.6	15.1	4	42.4	39.6	3	45.8	90.2	811
Standard Register	•/•	15	18.8	14.2	21.5	5.8	15	14.9	1.1	16	16.2	2.8	665
Automatic Data	•/•	16	18.3	18.8	24.9	11.0	14	16.0	11.2	17	15.6	22.8	1,584
Kinder-Care	NA/NA	17	18.2	10.1	169.6	4.5	5	34.4	64.1	14	19.2	–11.4	779
PHH Corp	•/•	18	17.9	7.0	377.1	1.3	9	21.4	18.6	23	3.9	–45.2	1,685
Reynolds & Reynolds	59/64	19	17.3	9.7	51.1	3.0	11	19.4	6.6	11	20.0	–12.0	600
Diebold	•/•	20	16.6	10.0	1.4	7.5	31	–0.7	5.3	28	–6.9	0.8	453
Avery International	60/70	21	16.0	10.5	43.8	3.2	17	14.2	10.3	24	3.9	–16.5	1,552
Moore Corp	•/•	22	14.5	14.3	4.9	6.7	29	4.5	13.0	22	7.0	40.0	2,493
Computer Sciences	•/•	23	14.2	14.0	23.8	4.0	22	11.4	8.3	18	14.8	26.6	1,195
Alco Standard	86/69	24	14.0	18.6	26.6	2.9	27	7.8	5.5	25	2.3	28.7	3,817
Esselte Business Sys	60/45	25	14.0	13.4	45.1	4.3	13	18.9	19.9	9	23.0	14.3	1,386
Nashua	74/66	26	13.7	14.8	22.8	3.2	28	7.6	20.0	7	26.3[d]	33.5	976
Dennison Mfg	51/50	27	12.8	14.6	36.0	4.8	30	3.8	–1.2	26	1.6	–6.5	709
American Building	•/•	28	10.1	8.9	21.1	1.1	19	12.3	9.9	29	–11.3	58.1	566
Xerox	68/47	29	9.1	11.3	31.0	3.8	23	10.5	14.3	27	1.4	22.8	16,453
Volt Info Sciences	•/•	30	6.3	def	110.6	def	24	9.9	6.4		NM	P-D	461
Savin	•/•	31	def[a]	NE	27.2	def	32	–2.8	3.2		NA	P-D	359
AM International	•/•		NA	def	46.7	def	20	11.6	–29.4	30	–57.2[c]	P-D	821
Medians			**18.3**	**14.5**	**26.9**	**4.2**		**14.4**	**12.0**		**16.2**	**16.1**	
Industry medians			**18.6**	**14.8**	**31.5**	**4.2**		**14.4**	**13.8**		**16.3**	**19.3**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit P-D: Profit to deficit def: Deficit NA: Not available NE: Negative equity NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth d: Four-year growth For further explanation, see page 77.

INSURANCE



ice competition walloped property/casualty rnings; life companies struggled with growth.

By Laura Jereski

WHAT HAS BEEN HAPPENING to most property and casualty insurance companies lately is no accident. Two years of fierce price competition have brought rates down in certain classes as much as 40% from 1986 levels—with wholly foreseeable consequences. Third-quarter earnings for the industry are down 10%, and that's just the beginning. Says Denis Callaghan of Alex. Brown & Sons: "We're forecasting declining reported earnings for most of the property and casualty companies we follow." As though that wasn't bad enough, California voters decided to defy the laws of economics and voted themselves cheaper auto rates in a referendum. Not surprisingly, a good many companies were preparing to pull out of the state.

Bad signs abound. Combined ratios, the sum of underwriting losses and the expense of getting the business, are edging up again, to 105% of premiums, from 102.4% in 1987. That means heavy losses, though probably not as deep as the $70 billion in underwriting losses the industry took between 1982 and 1985, the last downturn.

As the costs of litigation and of jury awards swelled and

ardsticks of nanagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
ompany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
rokers													
larsh & McLennan Cos	64/73	1	35.4%	38.2%	2.1%	13.3%	1	19.7%	7.9%	1	23.3%	1.7%	$2,242
lexander & Alexander	87/●	2	3.5	15.7	53.3	5.4	2	8.7	1.7		NM	2.1	1,138
ledians			**19.5**	**26.9**	**27.7**	**9.3**		**14.2**	**4.8**		**NM**	**1.9**	
iversified													
eliance Group	●/●	1	25.2%	17.9%	176.1%	1.5%	14	15.2%	3.8%	1	80.7%	–63.9%	$3,566
ɔews	79/43	2	23.9	28.7	36.6	9.2	12	16.6	16.3	5	28.2	90.6	10,151
eledyne	25/NA	3	22.7	23.0	25.9	13.4	26	2.2	3.7	10	17.4	83.1	3,365
on	●/●	4	18.7	14.8	36.9	6.1	10	17.0	22.8	12	16.4	–1.3	2,745
ırmers Group	●/●	5	17.7	19.1	12.9	24.6	18	12.3	6.2	13	15.4	24.6	1,191
arcourt Brace	28/13	6	17.4	NE	NE	5.6	15	14.0	26.5	2	47.7	D-P	1,706
merican Intl Group	●/●	7	17.2	20.7	3.9	9.0	4	27.3	21.6	8	20.3	9.8	12,984
incinnati Financial	●/●	8	16.6	18.8	0.3	13.4	9	18.8	5.1	9	17.7	33.3	904
ld Republic Intl	●/●	9	16.5	14.5	25.2	8.7	3	30.3	–6.9	16	10.5	–0.7	1,062
ıfeco	●/●	10	16.4	16.2	27.7	8.3	17	12.3	8.1	6	28.1	–11.1	2,753
enith National Insur	●/●	11	15.9	17.7	5.0	9.8	1	37.9	8.4	21	6.2	10.4	498
NA Financial	●/●	12	15.4	17.4	1.3	6.5	7	19.6	10.8	4	30.6	53.5	7,896
t Western Financial	29/ 7	13	14.9	10.4	55.6	6.6	6	23.4	–28.4	7	27.0[d]	–32.5	3,044
slico	●/●	14	14.6	12.8	14.4	6.8	2	35.8	–4.8	20	7.0	–0.6	493
ᵖL Group	19/NA	15	13.8	13.9	103.0	9.2	24	8.2	9.8	22	5.6	9.2	4,739
merican General	●/●	16	13.8	10.0	73.4	7.7	11	16.6	–13.2	18	9.5	–27.4	5,687
eneral Re	●/●	17	13.8	18.1	4.8	15.6	8	19.6	–16.3	11	16.9	3.0	2,950
dependent Insurance	●/●	18	13.3	7.7	9.6	4.5	25	3.6	7.8	25	1.2	–15.5	487
emper	76/72	19	13.1	12.9	16.1	5.3	16	13.7	6.8	14	15.3	–22.1	3,772
ars, Roebuck	32/52	20	13.1	10.7	72.9	2.8	22	9.2	10.9	19	7.8	–10.9	52,536
ncoln National	●/●	21	12.4	5.5	17.6	1.7	13	15.7	1.3	15	14.3	–58.9	6,992
ansamerica	86/65	22	12.0	13.6	214.5	4.4	20	10.0	14.2	17	9.8	–17.3	7,784
etna Life & Cas	●/●	23	10.2	11.6	12.6	3.0	19	10.4	7.0	3	34.1	–20.1	23,646
avelers	●/●	24	10.1	def	23.1	def	21	9.2	4.0	23	3.5	P-D	18,534
merican Bankers	●/●	25	9.6	16.6	104.8	2.6	5	23.6	18.7		NM	D-P	798
T	50/24	26	9.2	13.8	29.4	5.2	27	–3.0	11.2	24	2.8	44.7	20,687
gna	66/67	27	5.1	9.1	7.0	2.8	23	8.4	4.1		NM	–38.7	17,588
edians			**14.6**	**13.9**	**23.1**	**6.5**		**15.2**	**7.0**		**15.3**	**[illegible]**	

0% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. P: Deficit to profit. D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. Three-year growth. Four-year growth. For further explanation, see page 77.

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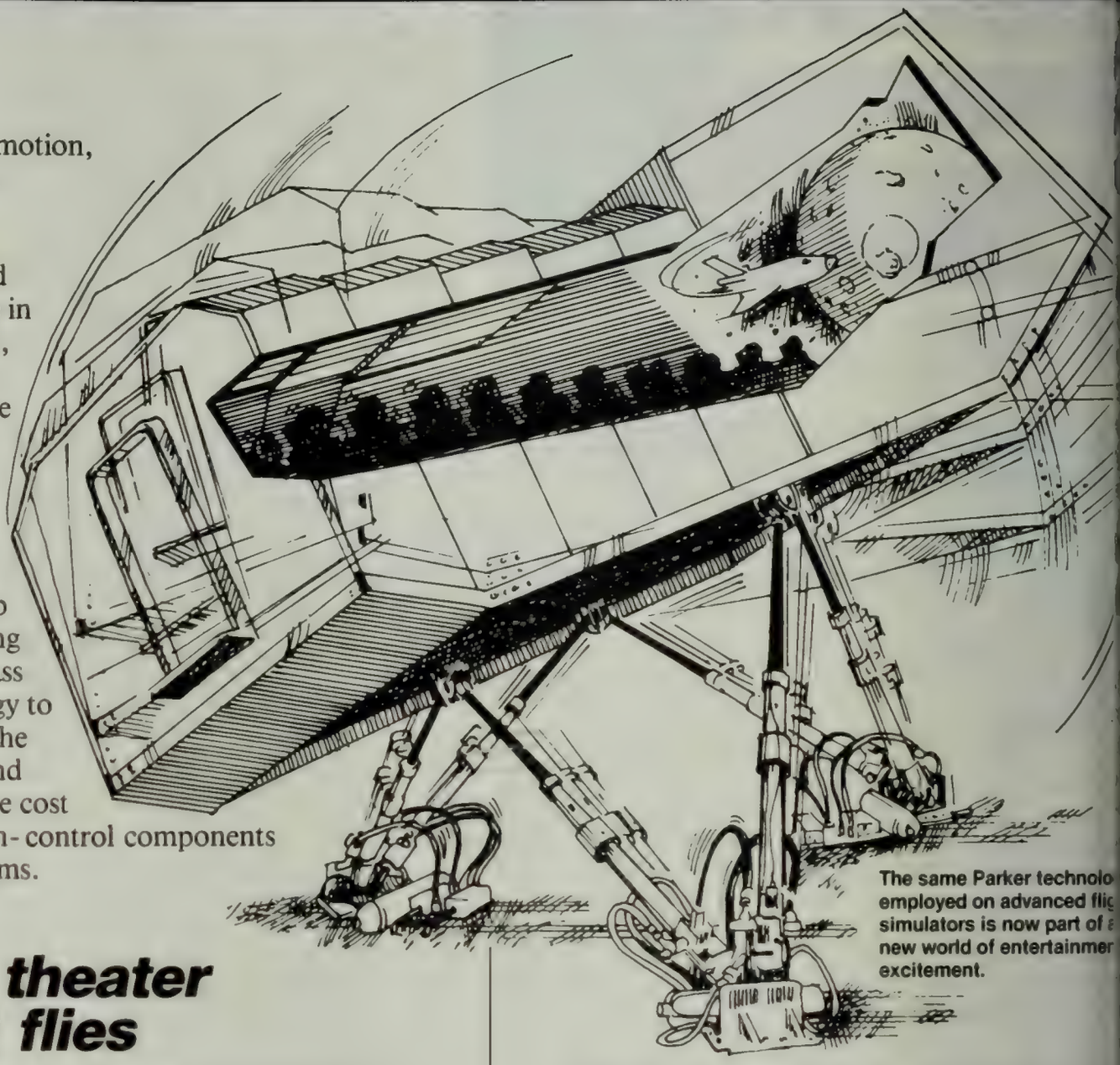
When motion, flow, and pressure must be controlled anywhere in the world, Parker is there. The world turns to Parker because of our leadership in applying world-class technology to increase the quality and reduce the cost of motion-control components and systems.



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n motion

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'hether they're manufactured in Kentucky razil, Ford trucks are setting the standard for ity and reliability.

ne reason for this is a new combination fuel-/water- separator. Designed and manufactured arker's Racor and Brazil Filter divisions, : filter units help eliminate fuel amination and protect expensive ıe investments.

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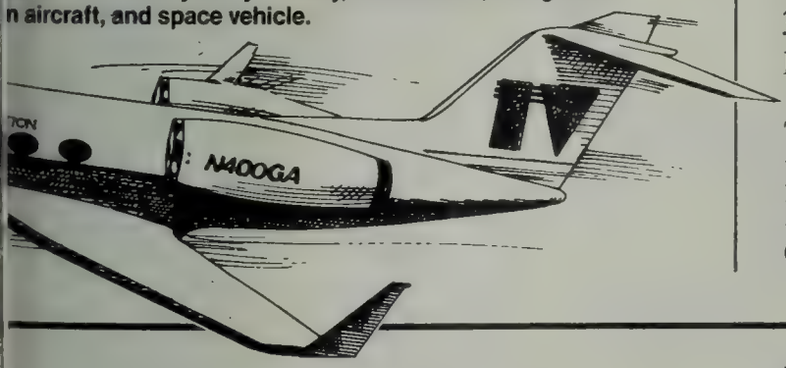
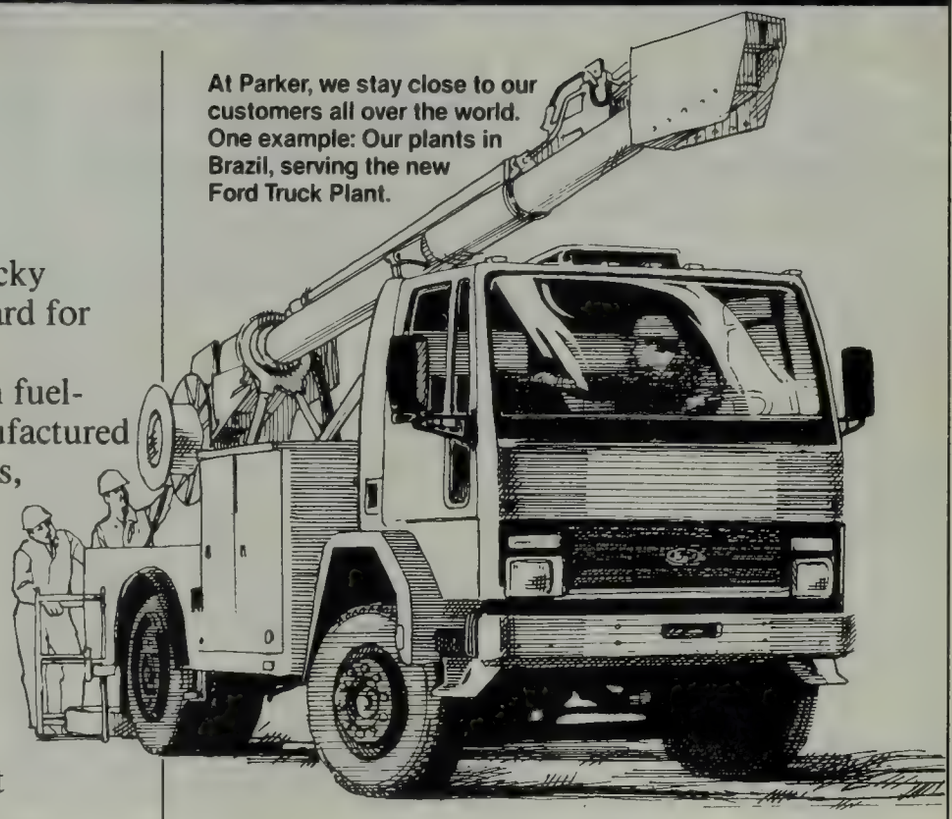
ly is Parker on the record-setting Gulfstream IV, our ts are on virtually every military, commercial, and general n aircraft, and space vehicle.





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Parker

profits dwindled, insurance rates had only one way to go: up. And that feeds demagogues who want to legislate lower rates. In the happiest position were [illegible]rvative companies like General Re, which derives [illegible] portion of its premiums from overseas markets rel[illegible] unaffected by price wars. Also better off were spec[illegible]s like marine and aviation insurer New Yor[illegible]eneral or Hartford Steam Boiler.

For multiline i[illegible] write life and group health as well as property and casualty, the most vexing probler continues to be rising health care costs, which the multiline have translated into price boosts of as much as 40% for grou health policies. But these gains have been largely offse among the multiliners by premium price-cutting in propert and casualty.

After several years of double-digit growth, the life insu ance companies confronted a sudden and costly surprise i their universal and variable life policies. Since these are sol

Yardsticks [illegible] manage[illegible]ance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Co[illegible]	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Life and health													
First Capital Holding	•/•	1	45.8%[b]	20.9%	162.7%	5.6%	1	500.0+%[d]	128.6%	1	79.8%[d]	9.7%	$438
ICH	76/85	2	38.5[b]	def	153.5	0.8	2	73.3	17.0	5	26.1[d]	P-D	2,810
First Executive	•/•	3	25.6	12.3	15.5	6.2	12	22.3	–15.4	17	1.6	9.7	3,141
National Western Life	•/•	4	24.9	7.1	0.0	1.6	6	34.9	–3.7	18	–0.5	–29.9	397
American Family	•/•	5	21.3	19.8	26.2	4.8	11	25.8	27.0	3	36.6	–5.3	2,242
Torchmark	•/87	6	18.8	22.0	60.2	10.7	14	15.4	2.6	6	25.9	0.7	1,642
Southmark	31/15	7	18.6	def	166.0	def	4	47.0[c]	36.1	16	3.9	P-D	3,035
Ethyl	33/27	8	17.8	23.6	55.6	11.5	22	–0.2	19.9	9	23.3	24.8	1,967
Capital Holding	•/•	9	16.7	12.8	28.1	7.5	15	13.5	3.0	10	22.3	–40.4	1,884
Kentucky Central Life	73/59	10	14.9	10.0	52.9	5.0	8	32.8	3.6	7	24.3	–27.5	532
Monarch Capital	•/•	11	14.4	6.6	27.1	3.0	3	51.0	–59.7	8	23.5	–52.3	900
American Natl Ins	85/•	12	14.1	5.6	0.1	8.6	19	4.2	9.3	15	9.3	–57.7	961
Provident Life & Acc	•/•	13	14.0	6.5	19.0	2.5	13	19.3	12.3	14	10.0	–49.4	2,735
Kaufman & Broad	56/56	14	13.0	14.4	188.7	2.6	10	29.1	43.3	2	38.2[d]	–15.9	2,009
Jefferson-Pilot	•/•	15	12.6	7.1	0.0	7.1	20	4.0	5.4	13	13.9	–44.3	1,218
Primerica	33/46	16	12.6	17.7	155.7	5.8	24	–4.4	22.0	11	22.1[d]	1.1	4,235
BMA Corp	67/DP	17	11.2	5.3	13.1	2.9	17	8.1	15.1		NM	–75.4	509
No'western Natl Life	•/•	18	9.7	8.3	6.3	2.4	5	35.4	7.2	4	35.0	–28.7	1,354
Equitable of Iowa	44/67	19	9.5	7.2	7.4	3.1	21	2.6	17.9	12	20.8	1.9	581
Integrated Resources	60/33	20	9.3	6.8	152.5	3.4	7	33.5	28.6		NM	–33.8	1,386
USLife	•/•	21	8.0	7.9	32.2	5.7	18	6.5	2.6		NM	–9.6	1,242
Washington National	•/•	22	4.8	def	1.3	def	23	–3.8	18.8		NM	P-D	940
Statesman Group	•/•	23	4.0	0.3	68.6	0.2	9	31.2	33.4		NM	–95.2	681
UNUM Corp	•/•		NA	8.7	0.0	5.2	16	11.4	2.2		NM	NA	2,166
Medians			**14.1**	**7.5**	**27.6**	**4.1**		**20.8**	**13.7**		**17.4**	**–29.9**	
Property and casualty													
Geico	•/•	1	35.7%	26.0%	35.3%	9.6%	10	15.3%	9.7%	4	34.5%	–26.1%	$1,694
Argonaut Group	•/•	2	33.1[a]	47.0	0.0	40.5	20	–0.9	9.2	9	18.9[c]	142.5	461
Progressive	•/•	3	33.0	22.3	46.3	7.2	3	34.8	34.3	1	45.0[d]	–7.5	1,205
20th Century Inds	•/•	4	25.9	24.6	4.4	7.9	4	34.2	22.9	5	30.3	15.1	593
First Amer Financial	•/•	5	25.1	9.4	39.7	2.1	6	25.0[d]	–6.2	8	22.5[d]	–63.8	617
Hartford Steam Boiler	76/•	6	23.3	31.6	20.2	15.5	11	14.6	7.0	2	41.3	21.2	443
Berkshire Hathaway	42/32	7	17.4	12.1	10.9	15.1	2	41.9	–1.7	3	36.7	68.4	2,285
Hanover Insurance	•/•	8	14.3	22.2	0.0	7.6	8	19.7	14.8	6	27.0	3.4	1,552
Selective Insurance	•/•	9	13.5	23.5	11.3	9.0	18	9.7	15.4		NM	3.3	467
Chubb	78/78	10	13.4	16.2	16.7	8.1	7	20.3	7.8	7	26.0	–5.8	3,923
Foremost Corp of Amer	82/73	11	12.7	11.6	27.3	7.4	13	13.5	–8.6	11	9.0	–21.1	451
Ohio Casualty	•/•	12	11.3	11.9	0.0	4.6	14	12.8	0.9	10	13.4	–33.8	1,576
Continental Corp	75/81	13	10.7	4.0	35.5	1.8	15	11.7	–2.1	12	6.7	–70.9	5,801
WR Berkley	•/•	14	9.9	22.4	33.6	11.3	5	31.3	3.1		NM	13.7	531
USF&G	•/•	15	9.6	14.5	12.2	4.7	9	17.7	17.6		NM	13.9	5,465
Xerox	27/47	16	9.1	11.3	31.0	3.8	16	10.5	14.3	13	1.4	22.8	16,453
St Paul Cos	•/•	17	7.8	18.3	20.5	9.3	17	9.9	3.8		NM	4.0	3,492
Fireman's Fu[illegible]	•/•	18	6.8	15.6	37.4	5.9	19	5.4	–11.2		NM	–23.5	3,592
Orion Capital	•/•	19	def	16.8	45.5	4.3	12	14.1	10.8		NM	D-P	577
Alleghany	•/77		NA	9.1	28.6	4.6	1	132.7[d]	1.9		NM	NA	994
Home Group	•/•		NA	9.3	219.0	2.9	21	–2.8	17.8		NM	–43.3	2,822
Medians			**13.4**	**16.2**	**27.3**	**7.4**		**14.6**	**7.8**		**9.0**	**3.3**	
Industry medians			**14.0**	**13.3**	**26.0**	**5.7**		**15.4**	**7.9**		**14.1**	**–6.7**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Seg[illegible]t, total deficit **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit def. L[illegible] Not available NE: Negative equity NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four-year growth For furt[illegible]tion, see page 77.

heavily as investment vehicles, public disenchantment with the stock market curtailed their sales.

Hardest hit were variable life sellers like Monarch Capital, where new premium volume sank from $1 billion in 1987 to less than $200 million last year. ■

Feeling better, thank you

Until recently Provident Life & Accident, the disability and group health insurer, was itself looking poorly. Among its problems: the unexpectedly heavy cost of integrating its

Chad Slattery

Winston Walker of Provident Life & Accident

1987 purchase of Transamerica Occidental, which specializes in insuring smaller companies. In theory, the higher premiums per employee that small companies pay were to have boosted margins for 60% of Provident's group business. "We underestimated how difficult it would be to make the acquisition," says Chief Executive Winston Walker. Provident's operating income slid from $108 million in 1985 to $15.5 million in 1987.

Now it looks like Walker has his company back on track. He has nearly finished integrating Transamerica's computerized claims-processing system into Provident's. He has also pushed through premium rate increases and brought in new business in Cleveland, Chicago and the West Coast. Finally, Walker dumped a property and casualty business just before cutthroat price competition took its toll on earnings.

Add it all up and Provident should report at least $2.50 in operating earnings per share in 1990, up from a dismal 33 cents in 1987 and an estimated $1.50 in 1988.

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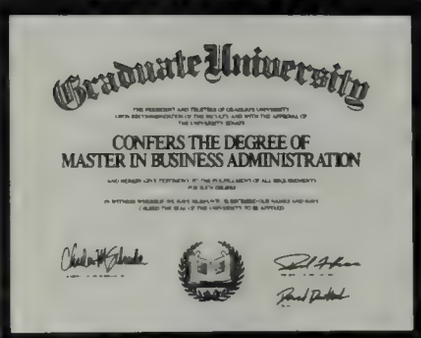
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STONEHENGE AND THE SPACE TELESCOPE

Over 4 years a Neolithic people built a remarkable monument or Salisbury Plain in what is now southern Englanc an engineering feat alone, Stonehenge stands as of the wonders of the world. But a recent disco has revealed that it served not only as a temple, as an astronomical computer.

We know very little about the life of the people built Stonehenge. But one thing that has becorr creasingly evident is that they were far more sop cated than was previously believed. Even though

LEISURE AND RECREATION

s the economy in trouble? You wouldn't ow it from the way Americans spent money have fun.

By Deirdre Fanning

IF ANYONE THOUGHT the October 1987 stock crash signaled trouble ahead for the industries in this group, he was wrong. As things turned out, 1988 was a good year all around. Moviemakers headed into the 1988 Christmas season with box office revenues up about 5% from the previous year's record of over $4 billion. Despite spiraling production costs, most of the bigger movie studios continued to be profitable. *Good Morning Vietnam, Three Men and a Baby* and *Who Framed Roger Rabbit*—blockbuster hits all—kept Disney's aftertax profit margin hovering at around 15%. The Warner Brothers moviemaking subsidiary of Warner Communications did moderately well, but strong sales by the record division helped improve its profit margin, from 8.7% in 1987 to 10%.

One sector of the entertainment group did suffer in 1988, however: small independent movie studios. Many of these

Toyland turnaround

The last five years haven't been fun for Hawthorne, Calif.-based Mattel, Inc. The toymaker's sales have ropped 23% from a 1982 peak of $1.3 billion, profits have een erratic and two major financial restructurings have een launched, at major expense, to try to revive the netime industry leader. Three separate management eams also have attempted everything from pouring mony into elaborate high-tech toys to shipping Christmas oys late in order to stand out in the heavily saturated toy arket. But in the last two years alone the company has ost as much as $121 million. "Every year [people] have aid it would be a turnaround," says Balis Zorn Gerard Inc. nalyst Sean McGowan, "and every year people have been isappointed."

Until now. Under the two-year-old reign of Chairman ohn Amerman, 56, the company's prospects are suddenly ooking up. Although revenues were down around 11% for e nine months ended September 1988, Mattel managed turn in earnings of 53 cents per share, a substantial crease over the meager 14 cents it earned for the same eriod in 1987. Inventories, which had become dangerous- high, have been reduced some 40%. The stock has oved, increasing 40% in the last year.

Behind Amerman's success is a dicey strategy: sacrifice ture sales growth for present profitability. By closing)% of Mattel's plants, laying off 22% of the headquarters aff, refinancing expensive debt and even cutting back on lvertising, Amerman is trying to squeeze some earnings t of the company before embarking on stage two of its vamping: a return to its traditionally strong toys like rbie dolls and Hot Wheels.

This, in short, is a turnaround still very much in its fancy. Although it improved noticeably in 1988, the toy siness is still plagued by a minirecession. To cope with stagnating sales Mattel was forced to take on significant debt over the last few years—now 64% of its total capital. Moreover, Amerman's emphasis on traditional toy fare is risky. Toy-buying parents can be fickle, like their kids. But for now, at least, Mattel's message to Wall Street is that profits will come before revenue growth. And that can't be all bad for its shareholders.

John Amerman of Mattel Nina Barnett

worked only with Stone Age technology, they built a monument which apparently acted as an astronomical clock. With Stonehenge they could predict eclipses, the exact days of the solstices, the long-term cycles of the moon and sun, and ot[illegible] portant heavenly events. They could begin [illegible] and that the universe had order and how [illegible]

The need to unde[illegible] workings of the universe is very ancient [illegible] e might even say that it is instinctual, that it i[illegible] what makes us human.

A leap of forty [illegible] s and we find ourselves still confronted wit[illegible] questions that drove the prehistoric Britons to build Stonehenge. How does the universe work? How did it begin? Will it ever end?

The Hubble Space Telescope will help us sol[illegible] these primeval mysteries. Once in Earth orbit, the te[illegible] scope will be able to detect objects as far as fourte[illegible] billion light-years away, which is to see fourteen billi[illegible] years into the past; past the birth of the Earth; past t[illegible] birth of our galaxy; to the very beginning of time.

The Space Telescope represents a momento[illegible] leap in the history of mankind. The builders [illegible] Stonehenge must have felt themselves on the ver[illegible] of the same kind of moment as they discovered th[illegible] creation actually had order. Within our own grasp [illegible] a view of the creation itself.

Lockheed
Giving shape to imagination.

mpanies went public in the frothy stock market of the mid-80s and took their new shareholders to the cleaners. In 88 De Laurentiis Entertainment Group filed for Chapter , New World Entertainment struggled through a restructur-g, and Cannon Group teetered at the edge of bankruptcy fore it was bailed out—and taken over—by a pair of Italian alsters.

Meanwhile, the toy industry overcame a two-year-old re-ssion to stage a minor comeback in 1988, largely through st-cutting. After dabbling unsuccessfully in expensive gh-tech toys, companies like Mattel and Hasbro are return-g to old reliables like Barbie and G.I. Joe. In the case of arket-leader Hasbro, those measures helped the company ok profits of 4.3% in 1988.

Casino visitors to Atlantic City and Nevada gambled about 7% more than they had in 1987. But in Atlantic City, at least, the outlook beyond 1989 may be more gloomy, since the huge Taj Mahal complex is due for completion by year's end. That means 1,250 new hotel rooms, 120,000 more feet of casino space and, absent an offsetting rise in players, proportionally reduced profits for everyone.

Faced with even more of a potential glut from overbuilding, Nevada has accelerated its pursuit of the convention and trade show business. Golden Nugget is building a 3,100-room hotel on the Strip in an attempt to lure conventioneers. But for 1988, at least, the real news was the steady influx of high rollers from the Far East. That, along with the rapid growth of the gaming market in Laughlin, 90 miles south of Las Vegas, helped Nevada's overall 1988 revenues jump about 9% over the previous year's. ■

ardsticks of anagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
ompany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
ntertainment													
eneral Cinema	35/16	1	34.1%	19.7%	133.1%	5.0%	10	3.1%	96.5%	4	8.5%	–10.5%	$2,040
andleman	•/NA	2	23.1	23.0	6.0	6.2	8	17.0	18.4	2	27.1	28.0	555
alt Disney	•/87	3	14.7	27.1	19.6	15.2	5	23.0	19.5	1	42.5	17.6	3,438
nited Artists	65/44	4	14.1	32.5	500.0+	4.5	7	17.5	28.9	7	–16.2	500.0+	842
CA	70/89	5	10.8	7.1	74.7	4.1	9	12.1	6.8	6	–3.1	–15.6	2,736
ulf & Western	39/38	6	9.6	17.6	61.1	7.3	13	–8.2	19.7		NM	30.4	5,073
olumbia Pictures	•/•	7	8.1	def	94.1	def	6	20.3	16.0	3	9.7	P-D	1,275
ele-Communications	28/13	8	7.8	0.6	500.0+	0.3	1	37.4	50.7	5	–1.4	–90.6	2,134
arner Commun	85/87	9	5.3	27.7	29.7	10.0	12	–3.5	26.1		NM	44.6	4,035
rimar-Telepictures	•/•	10	def	def	500.0+	def	3	25.7	–15.5		NM	D-D	59?
rion Pictures	•/•	11	def	6.7	248.9	2.2	4	25.1	17.1		NM	–19 7	449
annon Group	•/•		NA	NE	500.0+	def		NA	NA		NA	NA	363
GM/UA Commun	•/•		NA	def	157.4	def	11	–0.5	57.8		NM	D-D	675
urner Broadcasting	35/48		NA	NE	500.0+	def	2	32.3	26.0		NM	D-D	775
edians			9.6	6.9	145.3	3.1		17.5	19.7		–16.2	–15.6	
otels and gaming													
arnival Cruise Lines	•/•	1	58.0%	29.4%	11.3%	31.7%	1	22.2%	10.1%	1	28.8%	8.6%	$595
ircus Circus	73/NA	2	26.3	28.7	177.9	14.4	3	18.6	23.2	2	20.5	63.6	503
arriott	41/51	3	22.2	27.4	412.6	3.2	2	20.6	13.8	3	19.2	16.9	7,121
ilton Hotels	•/•	4	17.9	20.0	41.2	17.3	7	5.6	11.5	6	7.8	47.0	891
oliday	•/•	5	15.5	NE	210.9	7.2	8	2.6	–3.9	4	16.9	–20.3	1,609
aesars World	•/•	6	10.1	31.0	249.9	8.4	5	6.4	4.0		NM	72.4	840
amada	85/83	7	3.2	0.5	156.0	0.3	6	6.1	–27.8	5	10.7[d]	–84.6	535
lly Manufacturing	60/59	8	0.5	5.7	278.6	1.8	4	7.2	14.7		NM	–34.6	1,846
edians			16.7	23.7	194.4	7.8		6.8	10.8		13.8	12.7	
ecreation													
unswick	84/•	1	22.2%	25.0%	40.9%	6.3%	1	20.0%	20.6%	1	6.9%	30.4%	$3,328
oleman	74/77	2	10.3	13.3	39.7	3.8	2	10.5	12.1	2	1.3	36.2	650
utboard Marine	84/88	3	9.8	14.0	29.9	4.5	3	9.3	24.5	3	–8.3	46.1	1,605
edians			10.3	14.0	39.7	4.5		10.5	20.6		1.3	36.2	
hotography													
qua Industries	26/23	1	25.0%	35.0%	70.9%	12.7%	3	3.1%	20.6%	2	14.3%	147.9%	$904
stman Kodak	81/82	2	9.8	22.1	116.8	8.3	2	4.1	25.1	3	–3.8	98.2	16,020
laroid	•/•	3	7.0	2.4	41.7	1.3	1	7.0	4.1	1	35.9	–77.5	1,838
edians			9.8	22.1	70.9	8.3		4.1	20.6		14.3	98.2	
oys and electronics													
asbro	•/•	1	30.4%	8.6%	19.1%	4.3%	1	64.2%	1.2%	1	31.0%	–2.0%	$1,341
attel	•/•	2	def[b]	def	257.5	def	2	1.0	–11.5		NM	D-D	936
edians			def	def	138.3	def		32.6	–5.2		NM	NM	
dustry medians			10.3	13.7	124.9	4.4		10.5	17.1		1.3	8.6	
l-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

0% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth Four-year growth. For further explanation, see page 77.

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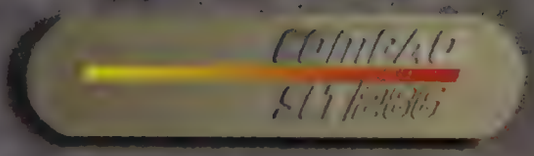

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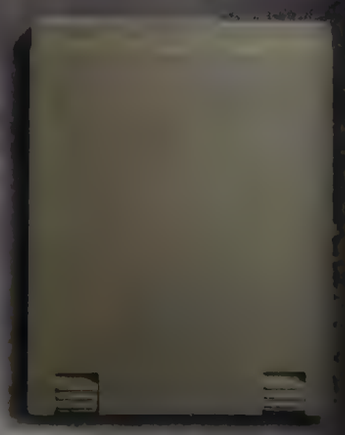

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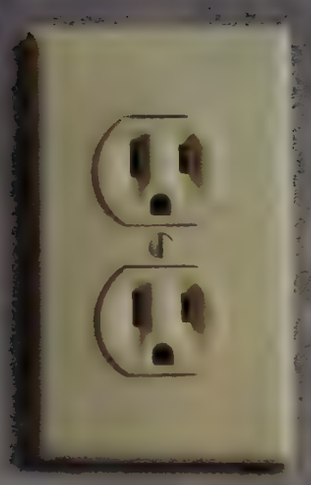

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METALS

Talk about rising from the ashes. Downsized, modernized, revitalized, this group's back with a vengeance.

By Rick Reiff

DON'T DWELL ON THE DISMAL five-year totals sho here—check out the 12-month results. Metals com nies were the powerhouse behind 1988's contin economic expansion, and they should remain that way ri through 1989.

What's behind this nearly industrywide turnarou Strong worldwide demand and a weak dollar, to be sure, b also these companies' own dramatic productivity gains.

In the steel category, net profits of U.S. producers doubl to $2 billion, after $12 billion in losses between 1982 a 1986. Once-endangered Bethlehem Steel, generating $2.5 m lion cash per day, has worked $1.7 billion off its mountain debt and pension deficits. Inland Steel is now operating 94% of capacity—with a break-even point under 75%.

One of the few uncertainties for steelmakers at the m ment is whether foreign import quotas will be extended p September. Yet even if they're not, imports' current 2 share of the market isn't likely to rise unless the dol strengthens. For the foreseeable future, it will simply cost t much to make and ship a lot of foreign steel here.

Still, profits from steelmaking seem almost certain to squeezed at least a little in the year ahead. One reason is th buyers who rushed to beat price increases averaging 7%

Surprise from Big Steel

For the first time since Chairman David Roderick's controversial purchase of Marathon Oil Co. in 1982, USX' steel and energy divisions are generating sizable profits in tandem. That's the icing on the cake that makes Roderick's turnaround of USX all the more impressive. He's making money, big money, for shareholders in what have proved to be two of the toughest businesses of the 1980s—oil and metals.

Despite depressed prices, USX' earnings from energy increased an estimated 12% in 1988, even as steel earnings jumped dramatically. Total corporate earnings now look likely to top $3 per share in 1989, up 10% on 1988 levels. Analyst George Gaspar of Robert W. Baird & Co. sees a further 25% rise, to the $4-per-share level, by 1992.

David Roderick of USX Nina Barnett

True stic demand for steel is bound to ebb a point, but Roderick isn't taking the windfall for granted. He's pushing a ely into Japan and other foreign n In 1989 USX expects to export 1.2 mil of steel—almost 10% of its total output. And b e company plans to be making 90% of its steel with t continuous casters, up from 65% today. Already, u low-cost producer, needing only 3.8 man-hours to n of steel, down from 10.8 man-hours six years ago.

With cash flow and a ales proceeds, Roderick is chiseling away at his bu e long-term debt, which should be down to 75% o of equity, from 108% currently, in 18 months. Uncharacteristic of a steel company, USX enjoys a $550 million pension plan surplus. It doesn't sit down with the United Steelworkers of America until 1991; its large domestic competitors face potentially costly negotiations this year.

Carl Icahn, with his 11.4% stake, still wants a breakup that could send the stock from its recent 29 level to the 50s. Roderick, who retires in May, maintains that a dual USX is better. Whichever man prevails, shareholders should win.

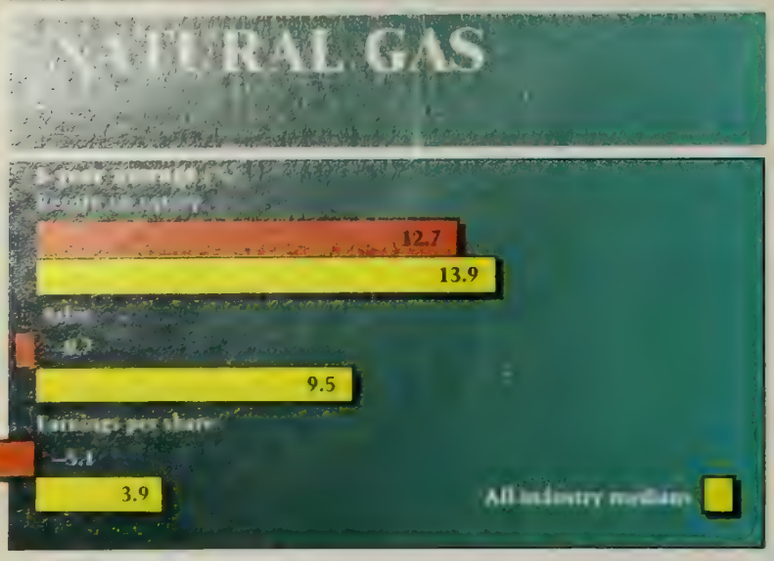
:8 now have bigger inventories to work off in 1989. The ılt, say executives and analysts, will be slower-rising :es and a 3%-to-4% drop in domestic production, partially ıet with higher exports.

ven so, foreign competitors rightly view the U.S. market :he biggest beckoning opportunity in the world. The 40% ke that Kawasaki Steel of Japan is taking in Armco's bon steelmaking operations is a likely harbinger of addi- ıal foreign investment. With the Japanese spending 14% re than the Americans to make a ton of steel, such ven- es look like the only logical way for foreign companies to hold on to the market shares they already have here, let alone expand them.

Aluminum companies are upbeat, too. Thanks to strong demand worldwide, aluminum ingot prices now exceed $1 a pound, double the price of just two years ago. Alcoa, Reynolds Metals and Alcan Aluminium will be hard-pressed to repeat 1988's record performances, but they may come close. Inventories remain low, and with their increased concentration in high-margin finished products like soda cans, companies such as Reynolds and Alcoa should prove less vulnerable to a cyclical downturn than might otherwise be the case. ■

ırdsticks of ıanagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
ımpany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
onferrous metals													
ıgelhard	71/20	1	11.7%	7.8%	16.2%	2.4%	8	3.4%	–2.8%	1	–3.1%	–24.1%	$2,384
ewmont Mining	68/80	2	6.1	NE	NE	26.2	13	–9.9	0.2		NM	–59.9	486
coa	●/●	3	5.3	20.1	47.5	8.4	10	1.7	26.6		NM	197.3	9,207
can Aluminium	●/88	4	4.4	21.6	31.1	9.7	4	7.0	27.5		NM	148.3	8,174
ındy & Harman	66/●	5	4.3	6.1	86.0	1.1	9	2.3	10.4		NM	D-P	650
ynolds Metals	●/●	6	0.9	25.8	79.1	7.8	7	5.8	31.4		NM	87.3	5,255
ıelps Dodge	65/78	7	def	31.8	28.8	17.1	6	6.3	63.1		NM	464.0	2,140
ıarco	88/87	8	def	19.0	19.7	12.2	12	–3.3	54.1		NM	39.1	1,819
co	●/●	9	def	46.9	41.4	19.7	3	7.4	78.7		NM	500.0+	2,863
prus Minerals	41/49	10	def[a]	13.0	10.7	10.0	5	6.7	50.7		NM	441.8	1,144
MAX	79/●	11	def	22.3	83.1	7.4	11	–0.8	33.3		NM	38.2	3,858
spiration Resource	38/67	12	def	9.4	38.1	2.6	2	11.3	16.7		NM	D-P	1,390
agma Copper	●/●		NA	def	50.1	1.1	1	12.1	30.7		NA	NA	519
edians			**def**	**19.0**	**38.1**	**8.4**		**5.8**	**30.7**		**NM**	**172.8**	
teel													
orthington Inds	70/77	1	19.7%	21.9%	16.6%	6.4%	4	15.0%	12.5%	2	17.4%	41.7%	$932
ucor	●/●	2	15.0	15.5	32.0	6.5	5	11.9	28.8	1	18.1	45.1	1,020
ılmont Industries	47/45	3	11.7	18.6	74.5	2.1	2	21.3	58.4		NM	72.1	611
ntral Steel & Wire	●/●	4	9.8	21.8	0.0	4.8	8	7.0	22.8	4	5.2	151.9	646
ımmercial Metals	33/68	5	8.0	16.6	19.7	2.2	19	–3.1	29.4	5	5.0	150.0	1,129
xas Industries	59/●	6	7.9	3.9	107.0	1.7	3	18.0	10.2		NM	D-P	650
ırpenter Technology	●/●	7	5.9	9.5	42.5	5.0	16	2.2	21.8	6	–29.2	426.7	582
ıkens	72/89	8	2.8	20.0	34.8	5.2	10	5.2	22.9		NM	104.8	583
rle M Jorgensen	●/●	9	2.0	6.7	13.3	2.1	11	4.9	42.4		NM	D-P	448
ational-Standard	●/●	10	def	7.4	44.4	1.7	17	1.4	11.1		NM	D-P	297
mken	39/DP	11	def	5.4	16.8	3.3	13	3.7	30.5		NM	D-P	1,479
npco-Pittsburgh	25/DP	12	def	def	46.2	def	15	2.4	–19.7		NM	D-D	248
land Steel Inds	●/●	13	def	17.7	38.3	5.7	14	3.1	18.0		NM	101.9	3,952
ɔpperweld	●/●	14	def	19.5	46.9	6.4	22	–11.4	31.6		NM	500.0+	279
SX	26/17	15	def	10.6	108.3	3.7	20	–5.4	26.4		NM	D-P	15,713
ıne Star Tech	60/58	16	def	def	57.5	def	21	–10.3	105.9		NM	P-D	624
thlehem Steel	●/●	17	def	26.1	45.6	6.1	18	–3.0	20.8		NM	92.3	5,362
nco	●/78	18	def	6.8	67.4	1.8	23	–12.4	13.4		NM	–63.6	3,183
heeling-Pittsburgh	●/●	19	def[a]	NE	NE	12.2	12	4.5	8.6		NM	D-P	1,078
TV	63/68	20	def[b]	NE	NE	def	6	11.6	1.7		NM	D-D	7,640
legheny Ludlum	●/●		NA	45.5	28.5	8.3	9	6.1	41.2		NA	NA	1,148
yclops Industries	83/●		NA	NE	500.0+	def	7	10.6[d]	NA		NA	NA	994
gcomb	●/●		NA	30.2	498.9	1.5	1	60.1	11.4	3	8.8	97.0	608
edians			**def**	**10.6**	**42.5**	**3.3**		**4.5**	**22.3**		**NM**	**104.8**	
dustry medians			**def**	**14.2**	**39.9**	**4.9**		**4.7**	**26.4**		**NM**	**148.3**	
ll-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

00% or more. **DD:** Segment deficit, total deficit. **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit. D: Profit to deficit. def: Deficit. NA: Not available. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. Four-year growth. For further explanation, see page 77.



A shrinking bubble—bye-bye, gas glut—heralds an industry turnaround.

By William P. Barrett

AN ENORMOUS SURPLUS of natural gas helped make tl industry one dud of an investment play for years. No at last, it looks as if the worst may be over. Declini new discoveries and unexpectedly strong demand, prompt in large part by the recovery of manufacturing and concer about the adverse environmental impact of other fuels, ha steadily eaten away at the excess. Result: By the second h of last year, America's so-called gas bubble had shrunk about one-third of 1983 levels.

Few pipeline and integrated companies seem likely to wi up the decade showing the kinds of profits they enjoyed at t start of the 1980s, when lofty crude oil prices gave the ent energy sector a lift. Still, as a whole, the industry look headed for its best results in at least three years.

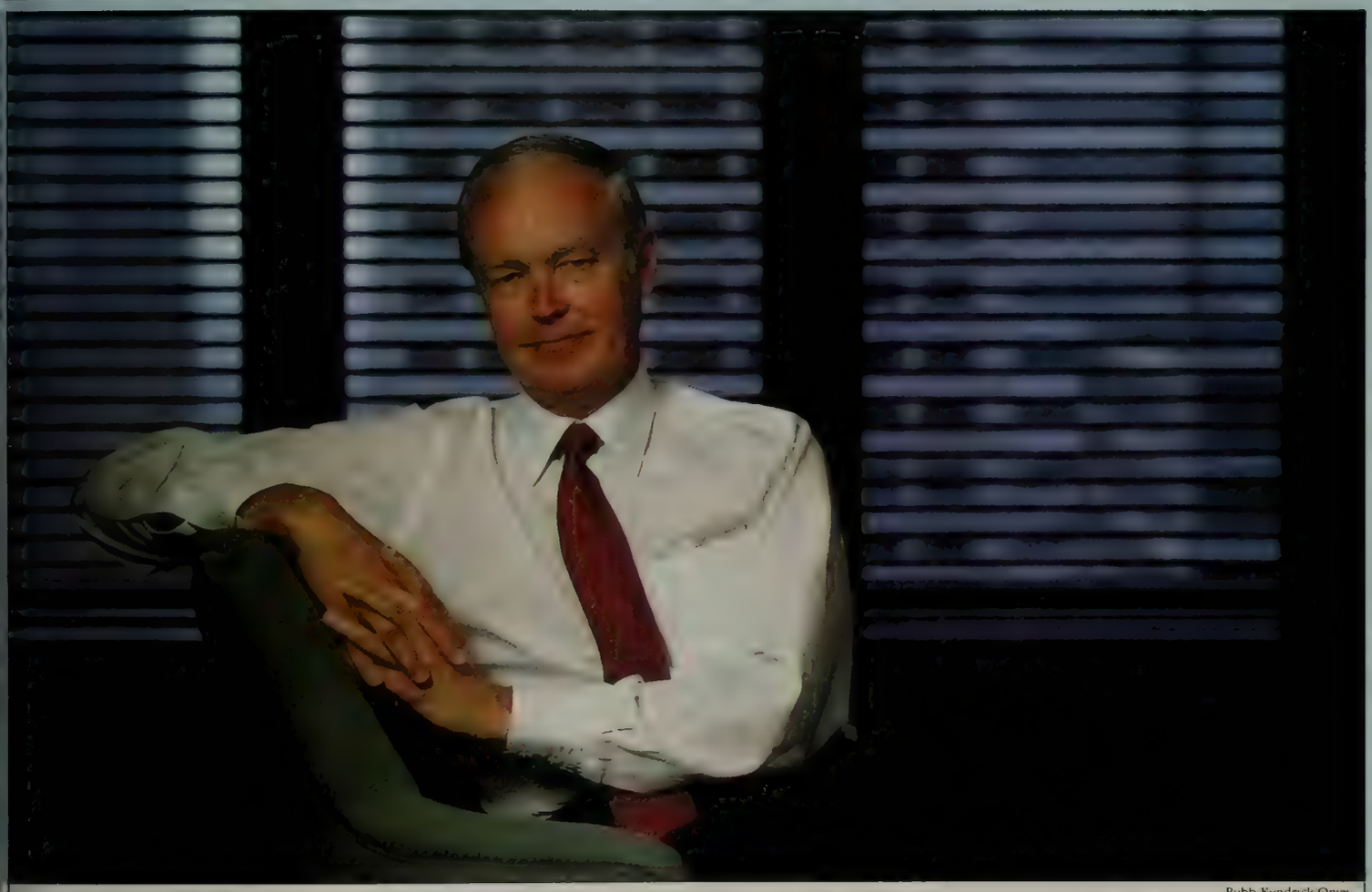
The effects are uneven, to be sure. Among producers, t 6% or so higher spot prices of 1988 benefited only those wi transportation contracts to move the gas. Producers, mo over, faced increased price competition from Canadian gas

Clearly, the pipeline segment prospered the most. In ad tion to the increased volumes they were carrying, the pip lines were heartened by negotiated resolution of an estimat 80% of the "take or pay" claims filed against them producers. These multibillion-dollar disputes grew out contracts that obliged the pipelines to pay producers for gas the far higher prices of the past.

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
Producers & pipeliners													
Coastal Corp	34/84	1	15.0%	12.4%	229.0%	1.5%	3	5.0%	13.2%	1	4.6%	–23.7%	$8,18
Enron	•/•	2	14.6[b]	5.0	225.9	1.9	2	10.0	–5.2		NM	–84.7	5,69
Burlington Northern	22/27	3	9.9	8.2	73.1	5.5	1	10.6	–19.8		NM	–65.1	5,23
Tra[illegible] Energy	84/•	4	7.5	def	127.3	0.2	6	–2.8	–6.4		NM	P-D	3,07
Texas Eastern	75/•	5	7.3	12.3	127.7	4.7	8	–8.9	–8.3	4	–42.7	76.2	3,37
Mitchell Energy	50/29	6	7.0	0.3	158.1	0.3	9	–11.2	3.8	3	–38.5	–66.7	57
Occiden[illegible] Petroleum	16/26	7	6.1	5.7	117.3	1.8	7	–2.9	9.8	2	–3.2	90.3	18,52
Sonat	•/•	8	3.9	8.7	71.7	6.8	11	–12.3	–6.5		NM	D-P	1,37
Tenneco	17/13	9	3.2	0.5	146.2	0.4	4	–0.1	–5.8		NM	D-P	13,60
Williams [illegible]	•/•	10	1.8	12.7	93.0	7.7	5	–0.8	4.9		NM	D-P	1,80
Panhandle [illegible]	•/•	11	0.3	def	135.0	def	10	–11.8	–21.9		NM	D-D	1,37
Valero Energy	NA/NA	12	def	def	40.1	0.1	12	–12.6	–14.0		NM	P-D	76
Medians			6.6	5.4	127.5	1.6		–2.9	–6.1		NM	–44.4	
Distributors													
UtiliCorp United	62/17	1	18.2%	13.7%	101.4%	6.0%	1	28.8%	16.4%	5	8.0%	11.3%	$66
Commonwealth En[illegible]	33/33	2	17.0	10.6	75.5	4.7	16	0.9	3.6	16	2.7	–4.0	[illegible]
Kansas Power & Ligh[illegible]	50/21	3	16.8	14.5	73.9	7.2	2	16.5	2.9	11	5.0	0.0	1,20
Laclede Gas	•/•	4	16.7	14.3	63.2	5.1	32	–5.6	8.2	3	10.2	9.0	[illegible]
Illinois Power	10	5	16.1	8.2	98.3	14.8	22	0.5	6.9	15	3.0	–47.9	1,28

•90% or more **DD:** Segm[illegible] [illegible]al deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profit P-D: Profit to deficit def: Def[illegible] [illegible] available NE: Negative equity NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth d: Four year growth For furthe[illegible] [illegible], see page [illegible]

Contrarian, and stubborn



James L. Ketelsen of Tenneco

Robb Kendrick Onyx

A lot of things are finally coming together for long-slumbering Tenneco (1987 revenues, $15 billion). The company's natural gas pipeline system, the nation's second largest behind Enron's, is well positioned for the sharp growth occurring in gas usage. The sale last fall of $7.3 billion of Tenneco Oil Co. assets generated cash to retire much of that company's $8.2 billion in total debt and to buy back 14% of its shares. Beyond that, Tenneco's Newport News shipbuilding yard has a $7.7 billion backlog of orders, and its auto parts, chemical and packaging units are also experiencing solid improvements. The Case IH farm and construction equipment maker subsidiary, which lost an estimated $340 million in 1987 and 1988, is finally moving into the black.

So Tenneco, which lost $258 million from 1985 to 1987, seems on the edge of a major rebound. Per-share earnings for 1988 are estimated at around $1.60, and forecasts for 1989 range from $3.50 to a shade over $4. Ronald Barone of Kidder, Peabody sees the stock, trading recently around 49, topping 60 by the end of 1989. With the current 6% dividend, that would be a total return during 1989 of more than 25%.

The company's new prosperity represents a sort of personal vindication for Chairman James L. Ketelsen, who for ten years has defied conventional wisdom in stubbornly pursuing his vision of a diversified industrial conglomerate. No more major acquisitions or divestitures are in the offing, but he rules out nothing. The key to Tenneco's future now, Ketelsen says, is knowing what to sell and what to manage, a decision he calls pretty simple: "What is the potential selling price versus what you can do with it yourself?"

NATURAL GAS

Among 1988's big pipeline winners: well-managed Coastal Corp., which had strong per-share earnings for the first three quarters; KN Energy, whose aggressive marketing efforts paid off with several big new customers; Equitable Resources, which combined low exploration costs with an expanding customer base along the eastern seaboard; and Williams Cos., which opened the nation's largest independent common carrier pipeline system while developing an unrelated telecoı munications network.

On the other hand, Enron, faced with stiff competition Texas from a surplus of residual oil fuel, stayed in the bla largely through nonoperating income. Panhandle Easte staggered under heavy take-or-pay payments.

Local distribution companies, not only seasoned by tou competition from fuel oil but also the beneficiaries of stat issued monopolies, are poised to reap the rewards of the ne found gas demand. So far, they have been able to pass on tak or-pay charges to their customers without difficulty. An lysts predicted that such local distribution companies Arkla, Atlanta Gas Light, UGI Corp., Piedmont Natural a Southwest Gas would also fare well in 1989. ■

Variations of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
Baltimore G&E	23/11	6	16.0%	15.9%	64.6%	17.2%	9	2.8%	–2.5%	2	10.2%	2.3%	$1,79
Peoples Energy	•/•	7	15.9	16.2	84.7	7.0	30	–3.8	–4.9	7	6.8	39.2	1,11
Wisconsin Public Svc	26/ 8	8	15.6	14.7	59.1	9.4	24	–0.6	3.2	12	4.8	9.1	59
Iowa-Illinois G&E	37/11	9	15.2	13.4	85.7	11.6	21	0.5	–0.5	19	–0.5	–8.1	48
Scana	27/12	10	14.9	13.3	96.6	10.8	7	4.9	–5.4	6	7.0	–13.8	1,06
Southwest Gas	71/NA	11	14.8	13.8	116.1	8.0	8	4.7	18.9	4	9.2	16.0	52
Piedmont Natural Gas	•/•	12	14.4	18.4	58.7	6.4	6	5.8	–5.1	9	6.4	29.6	39
Cincinnati G&E	26/ 6	13	14.3	11.9	88.8	9.8	15	1.2	–0.9	23	–2.1	–39.6	1,36
Brooklyn Union Gas	•/•	14	14.2	13.7	82.5	6.9	14	1.3	–2.7	22	–1.4	2.5	59
Washington Gas Light	•/•	15	14.0	13.4	73.0	6.7	26	–1.2	–4.2	13	4.8	17.2	66
Orange & Rockland	24/12	16	13.8	14.5	81.6	9.5	27	–1.8	2.8	17	2.7	10.9	47
Louisville G&E	25/ 5	17	13.6	13.5	80.2	12.9	12	2.1	0.4	8	6.7	7.4	64
Pub Svc Enterprise	29/10	18	13.3	13.7	96.5	12.2	11	2.4	–0.1	21	–1.1	46.8	4,28
Pacific G&E	34/20	19	13.2	7.7	100.4	9.1	10	2.5	2.1	27	–7.3	–4.0	7,43
CILcorp	32/16	20	13.1	10.0	97.6	7.0	29	–2.4	–2.2	20	–0.8	–31.4	46
Public Service Colo	34/14	21	13.1	15.9	85.7	8.8	20	0.7	1.7	18	1.9	–4.4	1,69
Rochester G&E	30/13	22	12.8	9.3	121.3	7.4	19	0.8	2.7	25	–20.8	4.6	75
Midwest Energy	50/10	23	12.7	16.0	136.3	7.3	4	9.3	5.3	14	4.8	32.0	57
Wicor	63/67	24	12.4	13.8	64.4	4.4	23	0.1	7.7	10	5.6	60.0	73
DPL	23/17	25	12.1	11.7	119.2	9.7	18	0.8	6.0	24	–4.4	–25.2	97
Niagara Mohawk Power	17/ 6	26	12.1	7.2	119.7	6.5	13	1.3	6.4	29	–43.3	1.0	2,77
Public Service NM	31/10	27	12.0	def	96.2	def	3	14.1	11.5	25	–7.0	P-D	79
Atlanta Gas Light	NA/NA	28	12.0	12.8	102.2	4.7	25	–0.7	–0.8	1	12.3	10.3	97
Montana Power	13/11	29	11.8	9.4	63.6	10.4	5	7.1	10.8	26	–7.1	30.0	72
Diversified Energies	72/61	30	9.9	13.3	74.2	4.7	28	–2.2	13.4		NM	34.0	74
Nipsco Industries	40/ 8	31	5.5	7.8	130.1	6.6	31	–4.2	2.3		NM	60.9	1,49
Eastern Gas & Fuel	70/76	32	3.9	10.6	58.4	7.2	35	–9.4	–13.5		NM	223.4	67
UGI	58/•	33	3.8	14.2	54.4	7.8	36	–10.3	0.8		NM	31.2	41
Nicor	59/85	34	0.2	18.2	62.2	7.1	34	–7.8	–2.7		NM	32.3	1,47
CMS Energy	40/21	35	def	20.2	205.0	9.8	17	0.8	0.8		NM	46.0	2,88
Michigan Consolidated	•/•		NA	18.5	93.2	3.9	33	–6.5	–4.9		NM	–5.0	1,22
Medians			**13.3**	**13.6**	**85.7**	**7.2**		**0.8**	**1.9**		**0.7**	**9.1**	
Integrated													
Equitable Resources	70/55	1	18.0%	8.0%	58.4%	9.3%	2	–0.7%	–4.0%	3	–3.1%	–3.3%	$39
Consol Natural Gas	86/•	2	14.2	12.5	36.7	8.4	7	–6.9	1.8	2	1.2	16.4	2,35
National Fuel Gas	•/•	3	13.5	10.8	62.0	5.5	5	–5.5	4.3	1	3.5	10.7	76
Questar	•/•	4	12.8	3.3	48.9	3.4	3	–1.3	2.1	6	–11.8	–62.1	49
Arkla	•/•	5	12.4	9.2	112.3	5.1	4	–3.9	60.5	4	–5.9	–11.3	1,97
Pacific Enterprise	57/69	6	11.2	13.8	97.6	4.1	1	4.4	9.4	5	–11.8	–1.8	5,73
Oneok	87/•	7	9.2	6.7	76.1	3.8	10	–11.9	–2.7	7	–17.3	11.0	57
KN Energy	•/•	8	9.0	15.9	90.1	6.9	8	–9.1	10.0	8	–22.9	500.0+	33
Columbia Gas Syste	•/•	9	5.4	6.0	97.1	3.2	9	–11.6	12.8		NM	–13.9	3,15
Enserch	44/•	10	2.4	def	99.6	def	6	–6.4	0.6		NM	P-D	2,76
Medians			**11.8**	**8.6**	**83.1**	**4.6**		**–5.9**	**3.2**		**–11.8**	**–2.6**	
Industry medians			**12.7**	**12.3**	**91.6**	**6.7**		**–0.7**	**1.8**		**–5.1**	**6.0**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segment deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit D-D: Deficit to deficit D-P: Deficit to profit P-D: Profit to deficit def: Deficit. ilable. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth d: Four year growth For further exp e page 77.

Risk control for businesses that bruise easily.

When you ship $1.2 billion worth of bananas worldwide, a small flip in currency exchange rates could make a big difference in profits.

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"The IMM is where all information that impacts foreign exchange prices comes together," says David Groelinger, Chiquita VP and Treasurer. "That's where the most efficient pricing takes place."

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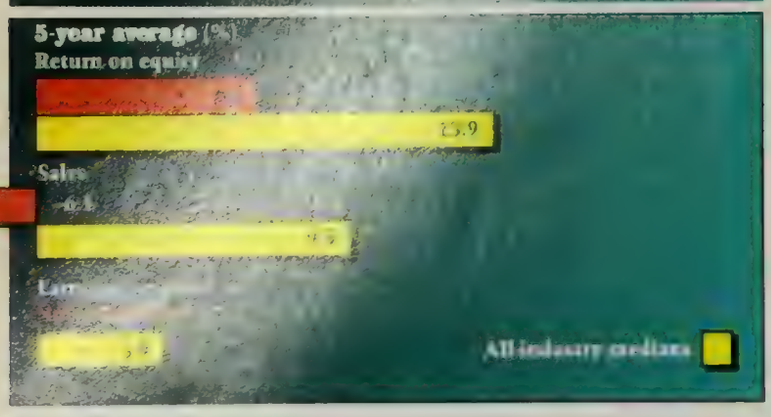


Profits should remain strong, but don't expect them to keep growing at the rate they did in 1988.

By Toni Mack

FROM THE VANTAGE POINT of 1989, the oil industry m wind up looking back on 1988 as the good old days. (prices weren't great, averaging around $16 a barrel the year, but profits in chemicals, refining and marketi went through the roof. As a result, for companies with stro operations "downstream," like Amoco, earnings increas well into the double digits were not uncommon.

That kind of growth will be hard to duplicate this ye Prices will depend on whether the 13 nations of the OPEC cartel hold production down to 18.5 million barrels a day, they have agreed. The past suggests they won't—at least r for a full year. So crude prices aren't likely to rise much fr present levels.

Barring a recession, downstream operations should st strong. "After lots of very painful restructuring, and after s straight years of economic growth, both the refining indust and the chemical industry are operating at close to f capacity," says Thomas Burns, Chevron's manager of ec nomics and corporate planning. It's the growth that will impossible to match. Robust demand helped Exxon's dow stream profits triple in 1988's first nine months, to $2 billion. They won't triple again this year.

Two trends that will persist: restructuring and an intere in buying natural gas properties. Sun Co. restructured itse for example, by spinning off its domestic exploration outf keeping refining, marketing and foreign exploration for itse Look for more moves like this. The yen for gas properties witness Chevron's $2.6 billion purchase of Tenneco's Gulf

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
International oils													
Exxon	89/85	1	17.7%	16.4%	15.7%	6.8%	5	–5.4%	10.3%	2	7.3%	20.1%	$79,57
Amoco	85/77	2	13.8	17.1	21.8	9.8	7	–7.9	9.0	6	–8.8	78.8	21,04
El du Pont de Nemours	38/13	3	11.6	15.1	20.6	6.6	1	0.0	11.0	1	12.2	27.3	32,24
Chevron	89/87	4	10.9	13.1	42.2	7.1	4	–5.0	5.6	4	0.0	–12.5	25,85
Mobil	[illegible]	5	10.2	12.6	38.3	4.1	3	–3.9	6.5	3	2.5	14.5	51,42
Occidental Petroleum	20/29	6	6.1	5.7	117.3	1.8	2	–2.9	9.8	5	–3.2	90.3	18,52
Texaco	[illegible]	7	def	def	78.2	def	6	–6.4	7.2		NM	P-D	35,17
Medians			**10.9**	**13.1**	**38.3**	**6.6**		**–5.0**	**9.0**		**0.0**	**20.1**	

●90% or more **DD:** Segment [illegible] **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit D-D Deficit to deficit D-P Deficit to profit P-D Profit to deficit def Deficit [illegible] ble NE Negative equity NM Not meaningful a Three-year average b Four-year average c Three-year growth d Four-year growth For further c [illegible] age ~~

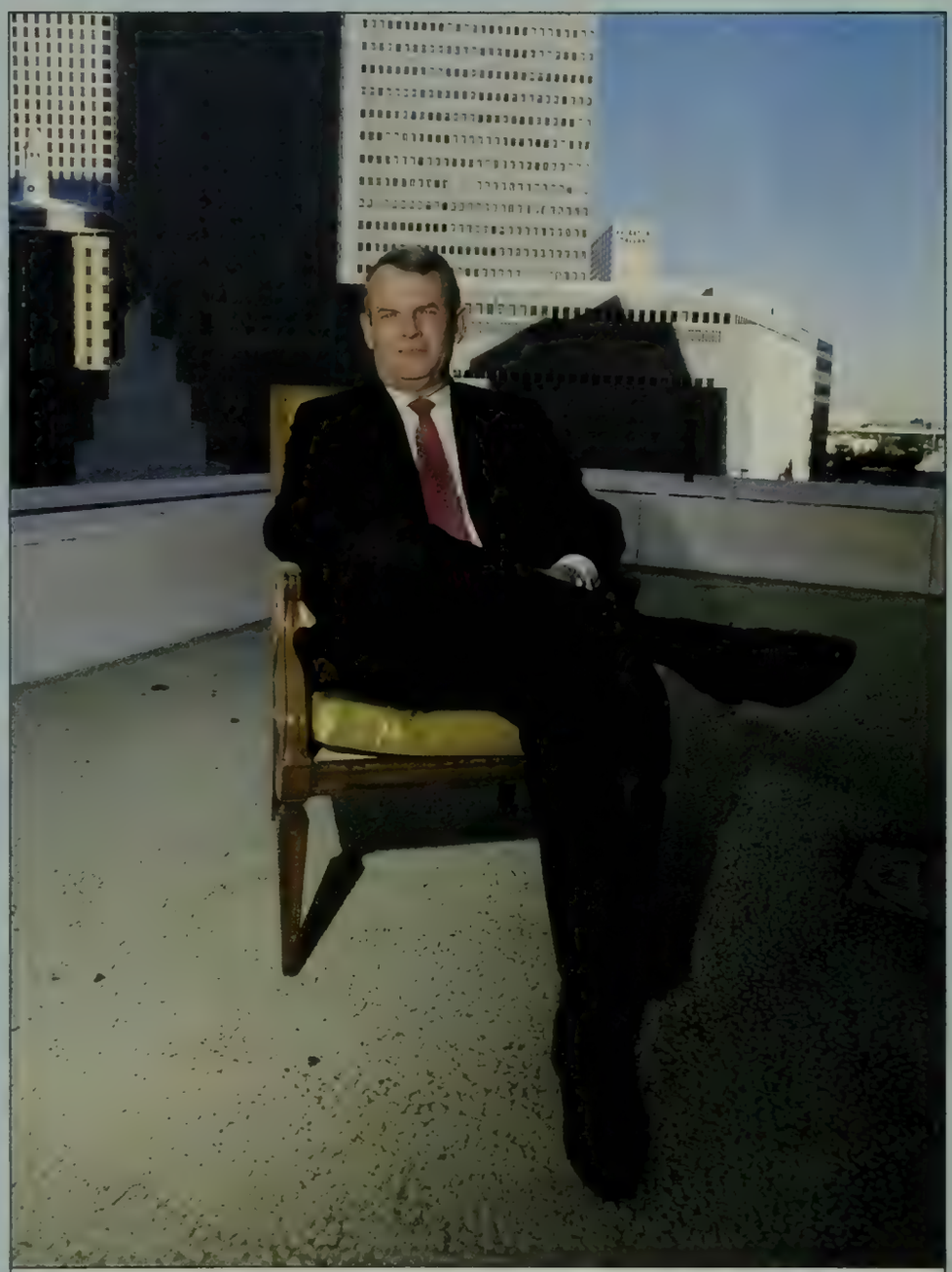
Better all the time

When John J. (Jack) Murphy took over as chief executive in 1983, Dresser Industries was a hodgepodge of different businesses—industrial abrasives and mechanics' hand tools, life insurance and fire hydrants. Since then, Murphy has disposed of those and 15 other lines, leaving a core of operations serving the energy industry. His strategy: "To position ourselves to move with the [energy] investment cycle. We're there now."

Dresser lately has reaped business from both ends of that cycle—drilling wells, for which Dresser supplies items like drill bits and well logs; and building petrochemical plants, which Dresser can design, construct and provide with turbines, compressors and controls. The result: a net profit of about $117 million, or $1.75 a share, in the fiscal year ended in October. That's over eight times 1987 results.

Murphy, 57, a mechanical engineer who earned an M.B.A. from Southern Methodist University in 1981, has restructured Dresser's balance sheet, too. Long-term debt is now 15% of capital, and Murphy has spent $322 million to buy in 15% of Dresser's common.

Still, cash has piled up to about $400 million recently. "An acquisition would be our choice," he says, "but the prices being paid for businesses we're interested in are way beyond reasonable returns. If we can't put the money to work [in an acquisition], then it makes our stock look even more attractive" to buy back. At a recent 27⅞, the stock trades at a mere 12 times expected 1989 earnings of $2.30. That's especially cheap compared with P/Es of 15 for Schlumberger and 17 for Halliburton, which get little benefit from the petrochemical boom.



John J. Murphy of Dresser Industries Jim Knowles/Picture Group

Mexico tracts—represents a bet on an imminent turn in the gas market. Though oil prices will keep a cap on gas prices for most of the year, gas demand is at long last coming into balance with supply.

In oil services, says PaineWebber analyst James L. Carroll, "revenues were higher last year than the previous year—the first time that's happened since 1982." Because service companies have cut costs to the bone, much of the extra reven fell to the bottom line. At Halliburton, nine-month earnir quintupled, to $72.8 million, on a 21% rise in revenues, $3.5 billion. But oil companies, whose drilling budgets come service companies' revenues, abhor nothing so much uncertainty, and confusion over oil prices is likely to damp further growth in 1989. ■

Yardsticks of management performance		Profitability					Growth						Sal
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 m ($mil
Other oil and gas													
Holly Corp	•/•	1	22.7%	99.6%	58.1%	5.9%	22	–10.7%	36.8%	5	–1.3%	500.0+%	$38
Equitable Resources	30/45	2	18.0	8.0	58.4	9.3	7	–0.7	–4.0	6	–3.1	–3.3	39
Getty Petroleum	•/•	3	16.8	30.1	102.6	2.1	2	59.6	7.7		NM	246.2	1,20
Coastal Corp	56/ 7	4	15.0	12.4	229.0	1.5	3	5.0	13.2	4	4.6	–23.7	8,18
Mapco	82/65	5	14.2	19.4	48.0	5.5	12	–5.2	17.8	3	6.7	76.3	1,82
Union Texas Petrol	•/•	6	12.0[a]	44.9	144.0	9.2	23	–11.0	–0.9		NM	D-P	1,16
Unocal	86/•	7	11.1	def	215.8	def	13	–5.3	8.6	8	–21.7	P-D	8,77
Atlantic Richfield	89/84	8	10.6	26.1	94.0	8.9	25	–11.2	12.6		NM	62.9	17,30
Quantum Chemical	26/26	9	10.3	35.6	165.7	11.1	4	4.4	32.0	2	24.2	83.1	3,12
Phillips Petroleum	82/57	10	9.4	32.5	249.6	4.8	18	–8.7	11.7	11	–39.7	D-P	11,35
Sun Company	•/81	11	8.8	0.2	42.1	0.2	26	–11.5	7.7	7	–5.3	–96.4	8,95
Quaker State	77/62	12	7 8	4.0	33.1	1.6	8	–1.2	–5.4		NM	D-P	80
Pacific Resources	•/•	13	7.6	7.8	66.1	1.9	20	–9.4	–1.8		NM	420.0	89
Pennzoil	89/76	14	7.6[b]	def	90.7	def	15	–5.6	23.7	9	–36.3[d]	P-D	2,09
Mitchell Energy	36/59	15	7.0	0.3	158.1	0.3	24	–11.2	3.8	10	–38.5	–66.7	57
Ashland Oil	57/28	16	6.7	19.2	75.1	2.2	11	–4.7	19.3		NM	54.1	8,20
Union Pacific	24/26	17	6.6	14.4	75.6	8.9	9	–1.7	16.4		NM	4.6	6,70
Cabot	44/ 8	18	6.4	10.6	52.0	3.7	10	–3.6	17.7		NM	59.9	1,67
Louisiana Land	•/•	19	6.0	def	82.8	def	19	–9.4	–1.1		NM	D-D	75
American Petrofina	75/DP	20	4.9	15.5	46.9	4.3	5	1.4	13.7		NM	50.5	2,63
Hadson	•/•	21	4.6	5.0	141.2	1.0	1	118.7	58.6	1	45.6[c]	–29.0	59
PS Group	86/NA	22	4.5	21.2	98.0	18.1	6	1.3	–38.4		NM	23.2	29
Amerada Hess	•/•	23	1.8	def	63.4	def	29	–13.7	–2.3		NM	P-D	4,27
Kerr-McGee	72/32	24	1.5	6.7	44.4	3.4	16	–7.9	5.4		NM	18.9	2,69
Murphy Oil	•/88	25	1.5	def	51.5	def	27	–12.4	6.5		NM	D-D	1,46
Crown Central Pet	•/•	26	1.0	39.3	1.2	6.5	21	–10.6	12.3		NM	D-P	1,15
Valero Energy	86/•	27	def	def	40.1	0.1	28	–12.6	–14.0		NM	P-D	76
USX	64/61	28	def	10.6	108.3	3.7	14	–5.4	26.4		NM	D-P	15,71
Tesoro Petroleum	•/•	29	def	def	45.3	def	30	–14.1	–14.5		NM	D-D	1,12
Charter	•/84	30	def[a]	98.3	40.4	13.9	33	–29.4	–40.6		NM	79.4	59
Diamond Shamrock R&M	NA/NA		NA	11.2	70.1	1.6	17	–8.1[d]	10.7		NM	–33.3	1,82
Maxus Energy	•/•		NA	def	186.2	def	32	–23.5[c]	–34.2		NA	D-D	80
Tosco	•/•		NA	59.5	84.1	4.9	31	–22.8	18.3		NM	D-P	1,22
Medians			**6.8**	**10.6**	**75.1**	**2.2**		**–8.1**	**8.6**		**NM**	**23.2**	
Oilfield services													
Valhi	25/NA	1	38.6%[b]	11.3%	240.3%	1.5%	1	31.8%	125.7%	1	10.3%[d]	–56.3%	$2,21
Schlumberger	52/58	2	4.6	17.5	5.9	13.7	4	–5.9	17.0		NM	D-P	4,91
Halliburton	55/41	3	0.6	5.2	9.5	2.4	6	–14.1	39.5		NM	466.7	4,46
Dresser Industries	57/51	4	def	7.7	17.4	3.1	2	–3.3	21.6		NM	D-P	3,83
McDermott Intl	27/•	5	def	def	148.4	def	3	–5.8	–18.3		NM	D-D	2,30
Cameron Iron Works	68/62	6	def	def	36.8	def	7	–14.7	17.0		NM	D-D	53
Baker Hughes	71/•	7	def	6.0	47.9	2.6	5	–10.9	20.4		NM	D-P	2,3
Smith International	•/•	8	def	23.3	105.7	5.2	8	–21.8	19.0		NM	D-P	3
Medians			**def**	**6.8**	**42.4**	**2.5**		**–8.4**	**19.7**		**NM**	**–56.3**	
Industry medians			**6.6**	**10.9**	**64.8**	**2.8**		**–6.1**	**10.5**		**NM**	**25.3**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segment [illegible] deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to profi P-D Profit to deficit def Defici [illegible] ilable NE: Negative equity. NM: Not meaningful a: Three-year average. b: Four-year average. c: Three-year growt d Four year growth For further [illegible] e page 77

In 1913, when football history was made, Allendale had been tackling loss control problems for 78 years.

Notre Dame at Army. A tough fight. Until Notre Dame ıleashed its secret weapon—the forward pass. In the last half, ıarterback Gus Dorais and star receiver Knute Rockne dazzled the owd. Thirteen passes, 10 completions. And when Notre Dame ıgineered its 35–13 triumph over Army, Allendale's engineers had ɜen leading a winning team for 78 years.

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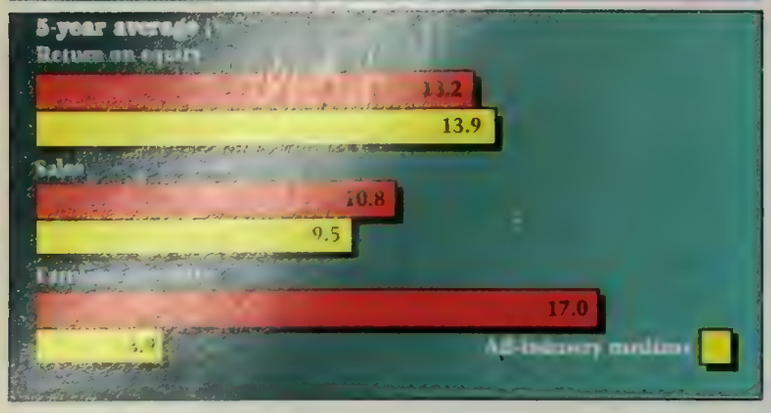
PACKAGING



Metal and glass got the biggest deals, but King Plastic remained the growth leader.

By Robert T. Grieves

BOTTLES PLAYED DEAD in 1988, cans rose some, but Ki Plastic led the packaging industry, which had 13.4% sales growth. Why? Consumers want to take a pr packaged dinner off the supermarket shelf, no matter ho long it has been sitting there, stick it in a microwave oven a have the result taste like cordon bleu cooking. In additio both shippers and retailers want to cut down on breaka from hauling and handling.

Result: Everything from mustard and peanut butter mayonnaise, baby food and liquor has begun to be packed plastic rather than in glass, formerly the food container choice. That strong demand, coupled with moderating ra material prices for plastic late in the year, put a number firms in good competitive positions for further gains in 198

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Packaging													
Anchor Glass	•/•	1	133.2%[b]	5.1%	476.3%	0.5%	7	19.7%	52.0%	1	164.6%[c]	–76.3%	$99
Envirodyne Industries	87/•	2	39.3[b]	34.6	82.5	9.3	1	135.9	7.4	2	118.1	30.5	48
Jefferson Smurfit	74/49	3	29.7	62.9	72.7	11.2	6	20.0	17.5	4	40.8	94.5	1,23
James River Corp Va	32/25	4	19.4	10.7	80.0	4.1	4	33.9	15.6	13	12.6	22.0	5,30
Sonoco Products	75/60	5	17.8	22.0	62.8	5.3	8	17.6	32.7	12	16.6	30.4	1,57
Ball Corp	67/75	6	17.4	14.2	28.1	5.3	19	4.1	–3.3	14	12.5	–12.0	1,05
Avery International	40/30	7	16.0	10.5	43.8	3.2	10	14.2	10.3	17	3.9	–16.5	1,55
Longview Fibre	52/32	8	14.8	33.0	39.7	14.7	14	8.6	12.2	3	60.4	49.6	67
Bemis	69/61	9	13.7	16.1	58.7	3.6	16	6.5	13.4	5	28.9	26.4	1,04
Federal Paper Board	21/ 3	10	13.5	22.7	58.6	10.4	9	16.1	4.9	11	17.3	61.1	1,06
Standard Shares	36/39	11	13.2	10.8	12.7	2.3	13	9.0	16.7	15	7.8	–34.5	74
Crown Cork & Seal	•/•	12	13.2	14.4	1.6	5.1	18	5.7	7.8	7	23.3	16.9	1,81
Dennison Mfg	49/50	13	12.8	14.6	36.0	4.8	20	3.8	–1.2	19	1.6	–6.5	70
Temple-Inland	60/63	14	12.4[b]	19.8	45.7	10.7	17	6.4	10.6	9	21.0[d]	50.5	1,72
Union Camp	32/ 6	15	11.8	19.4	42.0	10.7	15	7.7	15.8	16	5.3	50.8	2,58
Constar Intl	•/86	16	11.3	11.3	126.7	1.6	21	0.9	31.0	18	1.8[d]	21.9	55
Mead	25/34	17	11.0	26.4	47.1	7.7	12	9.6	10.0	6	24.2[d]	128.3	4,48
Stone Container	61/NA	18	10.3	39.3	99.5	7.9	3	47.1	27.0		NM	110.8	3,67
Chesapeake	24/13	19	9.1	21.4	80.6	7.3	5	24.9	6.1	8	22.4	131.5	70
International Paper	37/46	20	6.5	16.3	40.7	7.5	11	11.9	16.7	10	18.0	63.7	8,96
Kerr Glass Mfg	•/•	21	def	def	155.5	def	22	–12.8	9.4		NM	P-D	27
Triangle Industries	NA/NA	22	def[b]	def	500.0+	def	2	51.5[c]	500.0+		NM	P-D	3,02
Gaylord Container	NA/NA		NA	93.6	500.0+	6.2		NA	55.9		NA	NA	67
Industry medians			**13.2**	**16.3**	**58.7**	**5.3**		**10.8**	**13.4**		**17.0**	**28.4**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segme deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D Deficit to deficit D-P Deficit to profit P-D Profit to deficit def Defic ilable NE Negative equity NM Not meaningful a. Three-year average b. Four-year average. c: Three-year growth d. Four-year growth For further e page

ıong them: Minneapolis' Bemis Co., which derives about lf of its revenues from flexible plastic containers, and ıattanooga, Tenn.'s Constar International, the industry's rest play in rigid plastic containers.

Meanwhile, consolidation, the packaging industry's de-le-old trend, continued during 1988 in metal and glass, ıich lost market share. The merger activity helped many lustry stocks outperform the stock market and helped push : industry median return on equity up 16.3% over last ır's return of 14.4%.

Glass in 1988 suffered from weakening prices as the two lustry leaders, Owens-Illinois and Anchor Glass Contain- fought to keep capacity up by keeping plants open to get ıatever revenues they could. Corona beer, imported from :xico in long-necked bottles, and bottled Japanese dry beer ggered a vogue in bottles at Anheuser-Busch and Miller. But that alone won't be enough to lift glass from the doldrums in 1989.

Owens-Illinois' acquisition in February of Brockway, Inc. for $759 million allowed it to capture 40% of the glass container market and displace Anchor Glass, with 25%, as the market leader. Because of that massive market share, the Federal Trade Commission is reviewing the merger.

The big news in packaging was French-owned Pechiney's $1.26 billion tender offer for Triangle Industries ($3 billion sales), the biggest packaging company in the world through its ownership of American National Can Co. Pechiney, which produces aluminum and heavy carbon products, has agreed to pay $56 per common share for Triangle, $101 per share of preferred. The Triangle deal may prompt other aluminum producers, such as Alcan and Alcoa, to begin prowling for similar consumer packaging businesses. ■

Pure plastics play

Chattanooga-based Constar International (revenues, $556 million) is the only pure plastics play in the packaging industry—and for that very reason it's been overlooked by many investors. During 1988 its stock price gains lagged its competitors', which as a group outperformed the market. But in the last several weeks of the year, Constar's stock was flat, and even declined a bit.

Investors have steered clear because Constar, as a pure plastics play, is especially vulnerable to price hikes in polyethylene terephthalate, the stuff from which 80% of Constar's plastic containers is made. The commodity's price has been marching upward for the past year and a half, and, unlike most of its packaging competitors, Constar hasn't been able to hedge that cost with revenues from a paper or glass division.

Yet there may be opportunity here. In the last months prices have begun to stabilize from increased capacity. That, and the restructuring efforts of Chairman Charles F. Casey, 61, have put Constar in much better shape.

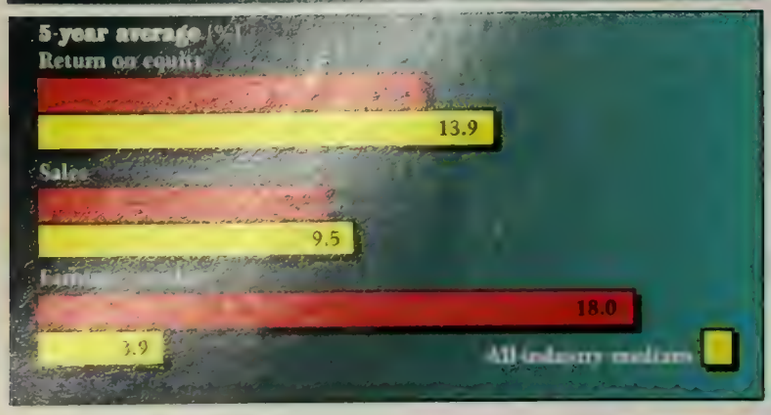
The firm had been saddled with $115 million in debt, much of it from the purchase of new plastic container machinery and plant remodeling. In addition, it was burdened with the operating costs of a 34-unit restaurant chain that provided a measly 6% of revenues and 14% in operating profits. In November 1988 Casey sold the restaurants to Marriott for about $35 million. That cut Constar's debt to $80 million and left the firm with just one subsidiary, Atlanta-based Sewell Plastics, which runs 23 plants in 14 states and controls the biggest share—40%—of the expanding plastic soft drink and food container market.

"We are now aggressively pursuing new market opportunities for plastic containers at home and abroad," says Casey. His goal: to double sales to $1 billion within the next five years. To achieve that, Casey will need prices to stay steady or fall. Constar will also have to corner a sizable market share of the most popular plastic containers around. But if he succeeds, more than a few investors will wish they'd gambled a little sooner.

Chuck Rogers

Charles F. Casey of Constar International

PAPER



A fourth year of strong growth seems likely, but questions loom for 1990.

By Steve Weiner

THE WORLD LOOKS A LITTLE like a three-year-old tick tape parade to this highly cyclical industry. With dollar still weak and the domestic economy still gr ing, demand for paper continued to set new records in 19 Profits rose 50% or more for most paper manufactur (matching 1987's rate of gain), and industry returns on equi averaging more than 19%, topped the market as a whole the first time since 1975.

So why are the price/earnings ratios of paper stocks a 40% discount to the market as a whole? Because paper sto are unusually sensitive to recessions, and wary invest apparently don't believe the recovery will last through 19 "It seems to us that the market has discounted paper sto for the next two recessions, not just the next one," s Raymond E. Cartledge, chairman and chief executive offi of Union Camp Corp., a maker of office papers, linerboa pulp-related chemicals and boxes.

If a downturn is coming, there's little sign of it now. T price of wood pulp, the basic raw material for paper, rose average 25%, to about $760 a ton, during 1988. Prices linerboard and various grades of paper rose in a range fr 15% to 20% last year and should move higher this year.

A slump, if it comes, should begin to appear late in the ye and probably will first involve commodity products such linerboard, which has had a 60% price runup since the enc 1985. Among the more leveraged producers, those at great risk in a recession are Stone Container, Gaylord Contain Great Northern Nekoosa and Jefferson Smurfit.

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil
Paper													
Albany International	•/•	1	23.3%[b]	23.8%	92.1%	7.9%	6	12.2%	16.1%	5	49.4%[c]	37.5%	$4
PH Glatfelter	•/•	2	21.7	26.7	22.0	13.4	15	8.6	49.9	9	22.9	47.6	5
Consolidated Papers	•/•	3	19.5	23.9	0.0	16.6	21	6.2	23.7	12	20.0	77.2	8
James River Corp Va	68/75	4	19.4	10.7	80.0	4.1	2	33.9	15.6	16	12.6	22.0	5,3
Pentair	49/18	5	15.8	20.0	31.3	5.0	4	23.3	1.9	20	3.8	153.9	7
Kimberly-Clark	20/28	6	15.6	23.0	48.9	7.0	10	10.4	10.8	17	11.6	31.4	5,2
Willamette Inds	67/78	7	15.0	26.1	54.8	9.7	20	7.6	20.4	1	72.9	47.3	1,6
Longview Fibre	38/46	8	14.8	33.0	39.7	14.7	14	8.6	12.2	3	60.4	49.6	6
Bowater	•/•	9	14.4	20.1	32.3	10.7	17	8.1	22.4	21	–2.1	120.1	1,3
Federal Paper Board	67/86	10	13.5	22.7	58.6	10.4	5	16.1	4.9	14	17.3	61.1	1,0
Scott Paper	26/36	11	13.3	23.6	75.3	8.5	7	12.1	13.4	7	28.6	76.5	4,5
Media General	28/47	12	12.5	14.1	61.4	6.7	11	9.8	6.8	22	–3.1	115.5	7
Union Camp	48/84	13	11.8	19.4	42.0	10.7	19	7.7	15.8	19	5.3	50.8	2,5
Westvaco	•/•	14	11.8	17.1	43.2	9.4	22	5.6	12.1	15	15.2	37.8	2,1
Pope & Talbot	52/46	15	11.2	22.1	51.7	6.4	16	8.4	19.3		NM	4.1	4
Mead	73/59	16	11.0	26.4	47.1	7.7	12	9.6	10.0	8	24.2[d]	128.3	4,4
Gt Northern Nekoosa	72/63	17	11.0	25.2	79.3	9.1	9	11.5	46.1	18	9.4	70.9	3,4
Stone Container	31/NA	18	10.3	39.3	99.5	7.9	1	47.1	27.0		NM	110.8	3,6
Potlatch	68/83	19	9.8	16.9	53.0	9.9	25	3.3	7.0	6	42.2	26.9	1,0
Georgia-Pacific	32/41	20	9.6	17.5	80.0	4.9	18	7.9	12.5	4	50.9	14.6	9,1
Chesapeake	65/85	21	9.1	21.4	80.6	7.3	3	24.9	6.1	11	22.4	131.5	7
Weyerhaeuser	42/59	22	8.1	15.0	48.8	7.0	13	8.8	15.6	10	22.8	29.1	7,6
Boise Cascade	54/69	23	6.9	18.3	58.2	6.7	23	4.6	6.3	2	66.9	86.8	4,0
International Paper	32/31	24	6.5	16.3	40.7	7.5	8	11.9	16.7	13	18.0	63.7	8,9
Champion Intl	74/74	25	6.4	14.3	56.8	8.4	24	3.7	10.1		NM	14.0	4,9
Gaylord Container	NA/NA		NA	93.6	500.0+	6.2		NA	55.9		NA	NA	6
Industry medians			**11.8**	**21.8**	**53.9**	**7.9**		**8.8**	**14.5**		**18.0**	**50.8**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segme[illegible] deficit **DP:** Segment deficit, total profit. **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to prof P-D: Profit to deficit def: Defic[illegible] dable. NE: Negative equity. NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growt d: Four-year growth. For further [illegible] page 77

n economic recession won't necessarily have the usual ngly negative effect on the industry. In previous cycles, er companies added so much capacity in the good years : they outstripped demand; this led to oversupplies, huge entories and price declines. This time, though, new capac- nas more closely matched actual demand. Despite a 14% ease in pulp and paperboard shipments last year, for instance, inventories actually declined 1%.

What's more, the weak dollar has kept exports high, up 8% in 1988. The best companies can ship paper to the Far East at costs that beat Japanese production by $100 or more a ton. Companies that benefit most from this continuing export opportunity include International Paper, Union Camp, Stone Container and Great Northern Nekoosa. ■

"We sit in wonderment"

Raymond E. Cartledge of Union Camp

Thomas England

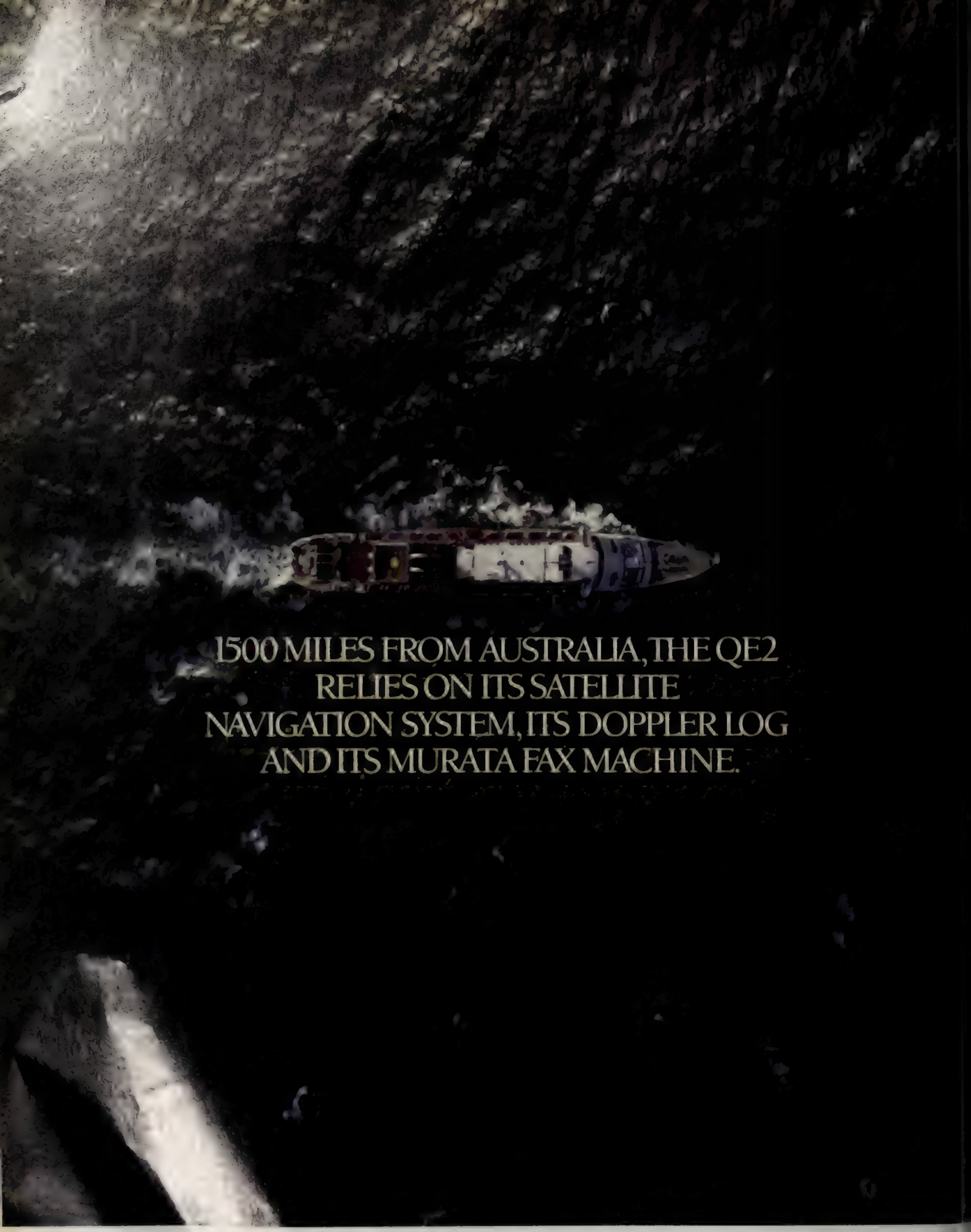
With earnings up by perhaps 50% for a second consecu- tive year, these are turnaround days for the paper ndustry. All the more so for $2.6 billion (sales) Union Camp Corp., the Wayne, N.J.-based producer of high- quality, uncoated office papers and linerboard.

While others in the industry, notably Stone Container nd Jefferson Smurfit, have grown by acquisition, Union Camp has taken the slower, quieter route of investing nternally to improve quality and add capacity. Some $1.4 billion of capital spending in the last five years has boosted production by 17% and improved quality to the point that Union Camp's mills now produce first-quality business paper 94% of the time, several points better than the ndustry as a whole.

Union Camp's profits plunged 48% in 1985, far worse han most in those days of a devastatingly strong dollar. But recent earnings gains have been spectacular—up 60% n 1987, to $207 million, or $2.83 a share, and up another 6% after three 1988 quarters. Its return on equity, now at nearly 20%, finally matches industry performance of the last 12 months and is 65% better than Union Camp's five-year average return of 11.8%. "And our ability to produce first-grade products at lower costs is significantly better than those who bought older facilities," says Raymond E. Cartledge, chairman, president and chief executive officer.

Is the turnaround complete? Not by a long shot. Cartledge plans to spend another $2.5 billion between now and 1992 to raise production by 26%, to 3.4 million tons of paper and linerboard a year. Even so, the stock, trading recently near 33, hasn't risen above its year-ago level. It trades at a multiple to estimated 1988 profits of 7.7, about average for the industry, which has tended to trade 40% below the market.

Why so low? "Maybe we're just a little bit boring," says Cartledge. "Markets are growing, we're hitting profit records and making substantial investments in the future, yet we and the industry are out of favor. Sometimes we sit in wonderment." We do, too.



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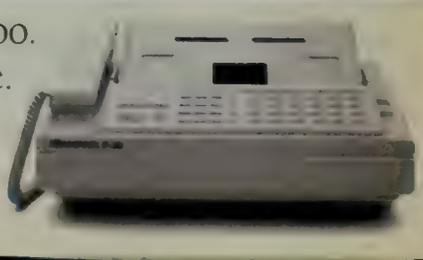

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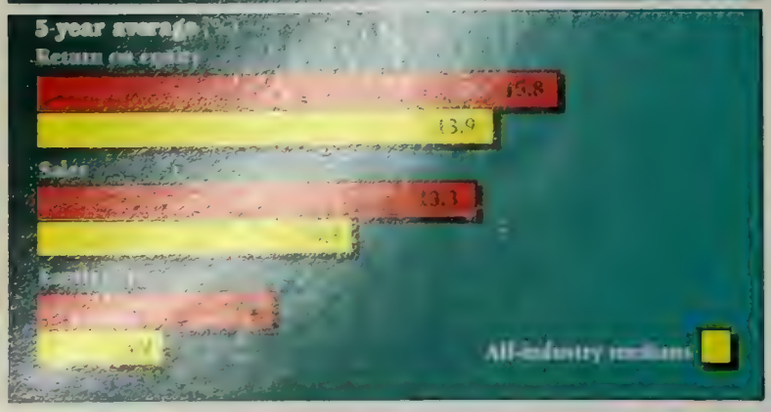

In 1988 sales were sluggish, so were earnings. The best bargains may have been the stores themselves.

By Jeffrey A. Trachtenberg

TOP RETAILERS IN 1988 did almost as much buying and selling of each other as they did of merchandise. Leading the way was the Campeau Corp., which acquired Federated Department Stores for $6.7 billion in May. To help finance the package Campeau promptly sold Brooks Brothers for $740 million to famed British retailer Marks & Spencer. Campeau has since raised another $3 billion by selling Bullock's/Bullock's Wilshire, I. Magnin, Filene's, Filene's Basement, MainStreet, Foley's, the Children's Place and Gold Circle. Most recently, Campeau agreed to sell its Ann Tay division for a reported $430 million to an investment gro led by retailer Joseph Brooks.

Robert Campeau was not the only eager buyer of big ret ers. Other major deals included the $2.5 billion Americ Stores paid for supermarket chain Lucky Stores; the mana ment-led leveraged buyout, for $1.6 billion cash, of Mo gomery Ward from Mobil Oil; the acquisition of Zayr discount stores for $800 million by Ames; and the acquisiti of Best Products for $1.1 billion by Adler & Shaykin.

Why all the activity in an industry with less than 5% sa growth in 1988? Part of the answer lies in the rising value the real estate on which many of the stores sit. Other quirers spotted undervalued assets in the hands of slee managers. Thus, Campeau bought Federated after an analy showed that the latter's overstaffed bureaucracy was faili to capitalize on opportunities. "They could have spun Bloomingdale's for $2 billion, much the way Zayre capit ized by spinning off T.J. Maxx," says retail consultant Ho ard Davidowitz. "Federated had more vice presidents th the big banks."

Others had equally compelling reasons to sell or buy. years Zayre's management had treated its 388-unit discou department store chain like a cash cow, investing the prof in T.J. Maxx or its BJ's Wholesale Clubs. But the Zayre cha itself rarely upgraded or remodeled, and several years a began to lose money. In Zayre, Ames saw an opportunity buy a famous name with good leases at less then book price Ames can turn the Zayre chain around, it will have made o of the shrewdest retail acquisitions in years. Ames has ready decided to close 74 Zayre units.

Meanwhile, retailers everywhere have other things on th minds besides takeover games. Consumer spending remai weak, partly because money is tight, partly because worki wives don't have time to browse the department stor Hence retail sales of women's apparel—the biggest sin

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
Apparel													
Limited	•/•	1	45.6%	25.5%	90.7%	5.1%	1	39.7%	6.5%	1	45.8%	–23.5%	$3,72
Charming Shoppes	•/•	2	31.2	14.8	8.3	4.2	2	29.8	16.4	3	28.1	–27.8	6
Gap	•/•	3	26.4	23.1	7.8	5.4	6	19.5	24.8	2	33.8	–20.7	1,1
Burlington Coat	•/•	4	23.2	14.0	9.3	3.8	3	27.3	21.1	6	16.7	4.7	5
Melville	34/36	5	22.7	21.3	3.6	4.8	8	11.9	15.2	7	12.6	20.7	6,5
Nordstrom	•/•	6	19.3	20.3	57.5	5.0	4	26.3	17.7	4	22.0	26.7	2,1
Zayre	55/80	7	18.4	def	68.7	def	5	24.2	–23.7	5	17.4	P-D	4,4
Petrie Stores	•/•	8	17.0	7.5	20.9	3.4	7	18.9	–5.3	8	3.4	–44.5	1,1
US Shoe	66/57	9	12.6	3.1	44.1	0.7	9	11.2	4.6	10	–15.1	–60.4	2,2
Hartmarx	54/20	10	12.5	10.8	40.8	3.3	10	4.3	9.0	9	–1.9	13.1	1,1
Medians			**21.0**	**14.4**	**30.8**	**4.0**		**21.9**	**12.1**		**17.1**	**–22.1**	
Catalog showrooms													
Spiegel	•/•	1	19.0%	15.9%	235.8%	3.1%	2	17.3%	15.4%	1	53.4%	–19.8%	$1,2
Service Merchandise	•/•	2	7.3	17.4	200.4	1.8	1	19.3	9.6		NM	D-P	2,9
Horn & Hardart	75/76	3	2.0	def	295.9	def	3	10.4	7.9		NM	P-D	4
Medians			**7.3**	**15.9**	**235.8**	**1.8**		**17.3**	**9.6**		**NM**	**–19.8**	
Department stores													
Dillard Dept Stores	•/•	1	21.3%	14.8%	71.9%	4.0%	1	26.5%	21.4%	1	23.4%	21.4%	52,38
Mercantile Stores	•/•	2	17.0	15.0	22.3	6.0	5	8.4	5.1	5	12.6	9.1	2,1
May Dept Stores	60/67	3	16.0	17.9	85.1	4.6	4	8.6	–0.3	4	12.7	18.1	10,58
Strawbridge	•/•	4	15.7	13.1	115.0	2.9	2	11.2	11.9	3	15.4	10.9	8

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'ardsticks of aanagement performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
.ompany	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
ears, Roebuck	58/43	5	13.1%	10.7%	72.9%	2.8%	3	9.2%	10.9%	6	7.8%	–10.9%	$52,536
C Penney	•/NA	6	12.8	15.5	81.8	4.4	7	6.2	–2.9	7	7.2	17.3	14,938
lobil	10/ 6	7	10.2	12.6	38.3	4.1	11	–3.9	6.5	8	2.5	14.5	51,427
quitable of Iowa	56/33	8	9.5	7.2	7.4	3.1	8	2.6	17.9	2	20.8	1.9	581
arson Pirie Scott	•/•	9	6.4	2.7	110.3	0.5	6	7.1	27.2		NM	D-P	1,063
lexander's	•/•	10	5.4	def	57.3	def	10	0.6	0.4	10	–16.4	P-D	525
arter Hawley Hale	•/•		NA	NA	NE	0.2	9	2.6	–4.6	9	0.0	D-P	2,643
leiman Marcus Group	•/•		NA	NA	40.3	1.3	12	–84.4	NA		NA	NA	1,223
ledians			**12.9**	**12.8**	**64.6**	**3.0**		**6.6**	**6.5**		**7.8**	**14.5**	
Discount and variety													
onsolidated Stores	•/•	1	51.9%	11.7%	60.4%	2.4%	1	138.7%	20.5%	1	54.5%	–2.9%	$600
Val-Mart Stores	•/•	2	35.8	33.8	42.1	4.0	4	36.4	28.8	2	35.3	35.7	19,224
amily Dollar Stores	•/•	3	27.4	17.9	0.0	4.1	5	22.1	19.5	5	19.4	14.0	669
red Meyer	68/NA	4	21.2	14.4	44.8	1.8	10	11.0	10.1	3	27.3	17.4	1,938
mes Dept Stores	•/•	5	17.9	9.7	43.4	1.8	3	40.4	11.9	7	8.4	71.9	2,249
ose's Stores	•/•	6	16.5	5.8	45.7	0.8	8	14.4	5.1	8	5.2	–53.8	1,391
ayton Hudson	50/52	7	15.9	11.6	108.2	2.0	9	12.5	16.5	9	4.8	–15.7	11,783
ollar General	•/•	8	15.8	5.5	78.2	1.0	6	16.0	–0.1	11	–18.7	28.0	589
W Woolworth	64/47	9	15.4	16.0	19.3	3.6	12	6.5	11.5	4	19.9[d]	18.4	7,734
mart	87/•	10	15.2	16.4	62.2	2.7	11	8.8	6.1	6	12.8	9.5	26,876
mesway	•/•	11	14.6	8.2	75.9	1.3	7	15.2	13.8	10	1.2	–53.6	770
oss Stores	•/•	12	4.7	17.5	36.0	3.3	2	64.6[d]	8.5		NM	D-P	612
ills Dept Stores	•/•		NA	NE	500.0+	0.6	13	4.3	13.8		NA	–75.6	1,605
ledians			**16.2**	**11.7**	**45.7**	**2.0**		**15.2**	**11.9**		**10.6**	**14.0**	
rugs													
ite Aid	•/•	1	23.8%	17.4%	38.1%	3.7%	5	13.5%	31.2%	1	15.1%	–24.3%	$2,699
merican Stores	21/24	2	23.2	12.0	276.5	0.9	4	15.5	9.4	4	6.0	–6.0	15,433
algreen	•/•	3	22.0	20.8	26.8	2.6	3	15.9	14.1	2	12.7	25.0	4,884
ngs Drug Stores	•/•	4	16.1	18.1	0.0	2.9	7	9.7	9.4	3	7.0	34.7	1,873
ly's Drug	•/•	5	13.1	16.3	93.8	1.7	6	13.3	10.3	5	–9.7	79.0	518
cific Enterprises	32/15	6	11.2	13.8	97.6	4.1	8	4.4	9.4	6	–11.8	–1.8	5,738
rry Drug Stores	76/NA	7	8.3	def	117.9	def	2	26.4	–3.0		NM	D-D	688
edco Containment	•/•	8	6.8[a]	9.1	39.2	4.3	1	69.4	58.7		NM	112.3	544
edians			**14.6**	**15.0**	**66.5**	**2.8**		**14.5**	**9.9**		**–1.9**	**11.6**	
ewelry													
[illegible]	51/NA	1	22.3%	59.0%	52.5%	15.0%	1	10.5%	–3.4%	1	10.5%	91.2%	$564
ordon Jewelry	NA/NA	2	4.3	def	6.5	def	2	–3.1	0.4		NM	D-D	390
edians			**13.3**	**25.8**	**29.5**	**5.7**		**3.7**	**–1.5**		**NM**	**NM**	
hoes													
own Group	80/•	1	12.7%	12.0%	40.1%	2.5%	3	1.7%	13.2%	2	–4.9%	0.8%	$1,732
lison Bros Stores	57/•	2	10.7	def	53.6	def	1	5.2	–0.8		NM	P-D	898
terco	27/31	3	9.3	11.5	24.4	4.9	2	3.5	–1.5	1	4.1	7.5	2,986
[illegible]	46/20	4	2.8	12.0	54.1	2.6	4	–8.0	–4.1		NM	–44.0	433
edians			**10.0**	**11.7**	**46.9**	**2.6**		**2.6**	**–1.2**		**NM**	**–21.6**	
Miscellaneous													
est Buy Co	•/•	1	60.2%	3.1%	59.9%	0.4%	4	112.3%	50.4%	1	64.1%	–72.9%	$497
ighland Superstores	•/•	2	57.7	5.4	54.0	0.8	9	34.9	19.0	12	13.8	–54.2	825
ice Co	NA/NA	3	42.4	24.9	41.8	2.3	6	55.7	25.2	2	51.5	28.7	4,053
ircuit City Stores	•/•	4	34.3	28.8	41.6	3.8	8	40.7	32.7	3	49.4	37.0	1,538
ome Depot	•/•	5	27.4	22.3	24.3	4.0	5	63.3	49.0	4	39.3	61.1	1,849
VN Cos	54/NA	6	24.6	8.1	6.4	1.9	7	53.6	253.0		NM	D-P	588
eneral Host	•/•	7	24.6	def	73.3	def	24	–4.0	–25.9	11	14.3	P-D	428
andy	86/NA	8	23.3	21.1	10.6	8.1	20	9.9	9.7	15	0.8	20.9	3,892
oys "R" Us	•/•	9	22.0	19.4	14.4	6.2	12	23.9	38.5	5	22.2	41.0	3,657
echinger	•/•	10	19.0	13.4	44.5	5.0	11	24.2	33.7	7	20.1	7.2	879
erwin-Williams	65/44	11	18.7	18.4	14.6	5.3	23	–2.3	10.1	8	18.6	–8.0	1,909
p Boys	•/•	12	18.4	14.2	68.5	5.7	16	15.9	15.6	9	17.3	5.1	600
owe's Cos	•/•	13	17.0	10.3	31.3	2.4	15	18.4	2.7	14	9.4	3.4	2,450
merica	45/43	14	12.6	17.7	155.7	5.8	25	–4.4	22.0	6	22.1[d]	1.1	4,235
almont Industries	37/25	15	11.7	18.6	74.5	2.1	13	21.3	58.4		NM	72.1	611

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category in department stores—is down. Finally, specialty store retailers like the Limited or Ann Taylor or the Gap, plus wholesale clubs like Price and BJ's, are all drawing customers away from the big chains. These last two trends have hurt not only the department stores but Sears and J.C. Penney as well.

Result: With profit margins now commonly between 4% and 5% of sales, store executives are now forced to spend ever increasing amounts of time on expense ratios instead of merchandising and marketing strategies. "You're seeing item by item analysis," says consultant Nathan Katz. "Expen control is the new discipline." Thus, for example, electric costs are examined on the basis of the wattage of the bulbs use, the cost of lighting windows, the supplier of the pow itself. Such cosmetics may have some symbolic value raising the consciousness of the industry, but to get fat margins and keep them, consumers will have to spend mc lavishly than they have in recent years. So far, there seer little sign of that happening any time soon. ■

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mo ($mil)
Scotty's	•/•	16	10.9%	2.5%	29.6%	0.8%	18	10.8%	6.7%	17	–6.2%	–60.0%	$55
Alberto-Culver	34/22	17	8.4	20.8	36.7	4.5	19	10.2	17.5	10	16.3	55.5	[illegible]
Wickes Cos	NA/NA	18	7.7[a]	0.7	115.5	0.4	21	8.4	–18.5	18	–21.5[d]	–94.1	3,5
Intermark	83/83	19	6.3	14.7	401.3	1.8	10	31.9	21.4		NM	381.3	6
Child World	•/•	20	5.9[a]	4.6	13.7	1.2	14	21.1	15.2	13	10.4[c]	–7.1	7
Costco Wholesale	•/•	21	def[a]	12.6	152.9	0.6	3	135.6[c]	44.9		NM	228.6	2,0
Businessland	•/•	22	def	19.1	108.8	2.4	2	163.1[d]	48.1		NM	88.9	9
PACE Membership	•/•	23	def	5.7	41.3	0.5	1	181.3[d]	51.3		NM	500.0+	1,1
Inspiration Resources	47/NA	24	def	9.4	38.1	2.6	17	11.3	16.7		NM	D-P	1,3
American Hoist	NA/NA	25	def	2.9	82.8	1.2	27	–5.7	3.1		NM	D-P	3
Grossman's	•/•	26	def[b]	14.2	171.1	1.2	26	–4.8	4.8		NM	–14.3	1,1
Atari	26/DP		NA	18.6	58.3	4.0		NA	147.6		NA	–19.4	7
Home Shopping	•/•		NA	15.4	240.2	2.5		NA	25.4		NA	–36.4	7
InterTAN	•/•		NA	15.3	27.8	3.9	22	6.2	19.4	16	0.0	NA	5
Medians			**14.8**	**14.2**	**44.5**	**2.4**		**21.1**	**21.4**		**9.4**	**14.0**	
Industry medians			**15 8**	**13.8**	**45.7**	**2.6**		**13.3**	**12.6**		**7.2**	**7.5**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

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The Gap snaps back

Nobody did it like the Gap this year. Just 12 months ago the San Bruno, Calif.-based retailer of men's and women's sportswear was an ambulance case, the victim of overoptimistic inventory levels. Worse still, its much-heralded Banana Republic division had turned into a dog—how many khaki hiking shorts does anybody need? Since January of 1988, however, the Gap's stock price has doubled, and 1989 earnings should improve, according to Edward Johnson, director of the Johnson Redbook Service. He expects the company to earn $3 a share, up 75 cents from this year's estimate.

What accounts for the turnaround? Under the guidance of President Mickey Drexler, out went the blue jeans, in came a broad mix of brightly colored sportswear modeled suspiciously like the stuff sold by archrival Benetton. The result? For the nine months ended Oct. 31, comparable same-store sales at the Gap were up 6.3%. Problems still remain at the Banana Republic, however, which is trying to switch from safari clothes to something the company vaguely describes as "vacation wear." The Gap's chairman and chief executive, Donald Fisher, is also being dogged by lawsuits from disgruntled shareholders charging him with illegally withholding bad news from shareholders. Even so, this is a company that got knocked flat in the retailing bloodbath of 1987 and has picked itself up nicely since then, again setting the pace for others to follow.

Shonna Valeska

Donald Fisher of the Gap

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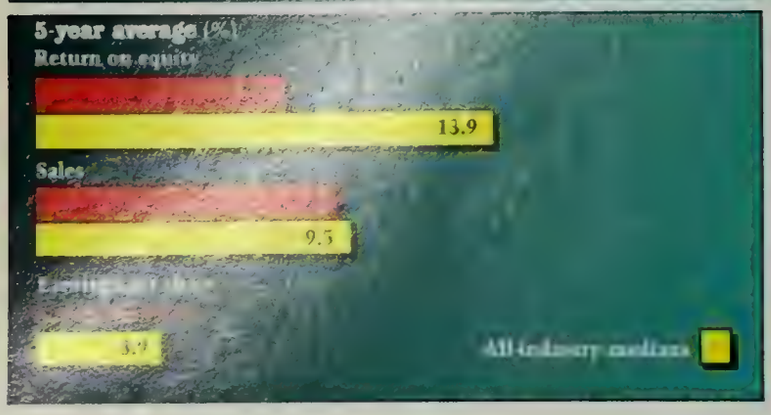
SURFACE TRANSPORTATION



The railroads are once again doing what they do best: running railroads.

By Jonathan Clements

OVER THE YEARS the railroads have tried their hand operating energy companies, building contract plywood mills and even Caribbean resorts. In 1 they went back to running railroads. The result was impro earnings prospects and greater respect on Wall Street.

Leading the march were Burlington Northern, CSX Santa Fe Southern Pacific. Burlington Northern's decisio spin off its natural resources business has pushed its stock 27% from its 1988 low. CSX' stock has risen 23% as company continues to buy back 38% of its stock. Next CSX' agenda is the sale of its energy and resort operations.

At Santa Fe Southern, Chief Executive Robert Krebs gut his company of valuable assets as he sought to stave off t predators, Henley Group and Olympia & York Devel ments. Henley backed off in July, but Olympia & York s owns just under 20% of the company's stock.

CNW Corp., meanwhile, spearheaded the fight agai overmanning. In September, Congress approved a Presid tial Emergency Board's recommendation that allows CNW cut its train crew size from four men to three. With indust wide labor negotiations now going on, expect to hear m about pay and crew sizes.

The railroads won a second victory on Capitol Hill wh

Yardsticks of management performance		Profitability					Growth						Sale
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 m ($mil
Railroads													
Burlington Northern	62/57	1	9.9%	8.2%	73.1%	5.5%	2	10.6%	–19.8%		NM	–65.1%	$5,2
Norfolk Southern	81/•	2	9.2	13.0	12.9	14.4	5	5.5	7.4	2	–10.3%	357.3	4,3
Kansas City Southern	63/76	3	7.5	5.9	82.2	3.5	6	5.5	2.4		NM	D-P	5
Santa Fe Southern	78/35	4	7.3	def	431.3	def	10	–1.9	–31.4		NM	P-D	3,7
CNW	•/86	5	6.8	12.6	106.0	5.3	7	3.5	5.9		NM	21.9	1,0
Union Pacific	75/71	6	6.6	14.4	75.6	8.9	9	–1.7	16.4		NM	4.6	6,7
CSX	82/76	7	6.5	2.9	58.4	2.0	3	7.9	2.1		NM	–67.0	7,6
Trinity Industries	38/19	8	2.1	10.3	95.3	2.8	4	6.3	44.2		NM	408.7	7
GATX	40/52	9	0.3	19.6	500.0+	8.3	11	–12.5	5.0		NM	34.2	5
Soo Line	•/36	10	def	6.7	113.4	2.9	1	21.4	–4.5		NM	D-P	5
Consolidated Rail	•/•		NA	8.0	22.4	9.0	8	–1.5	7.1	1	3.8	11.5	3,4
Medians			**6.7**	**8.2**	**82.2**	**5.3**		**5.5**	**5.0**		**NM**	**21.9**	
Trucking and leasing													
Yellow Freight Sys	•/•	1	18.3%	15.6%	37.2%	3.2%	6	14.1%	12.5%	1	25.2%	53.6%	$1,9
Ryder System	77/79	2	17.4	9.5	181.6	2.7	4	17.1	11.8	2	12.9	–30.3	4,9
Carolina Freight	•/•	3	17.3	4.7	73.1	0.9	2	17.3	6.9	4	1.7	–49.2	6
Roadway Services	•/•	4	14.8	10.2	0.0	3.3	7	10.7	12.6	6	–8.6	16.0	2,0
Consol Freightways	87/•	5	13.5	13.5	6.9	3.6	5	14.3	16.3	3	8.7	24.2	2,5
RLC	•/•	6	8.8	13.9	272.5	6.2	8	8.6	–37.7	5	0.1	253.8	2
Preston	•/•	7	5.9	0.0	107.7	1.0	3	17.2	21.2	7	–35.7	P-Z	5
American Carriers	•/•	8	5.6	def	50.7	def	9	8.3	50.2		NM	P-D	5
Budget Rent a Car	•/•		NA	18.5	189.3	3.1	1	27.8	23.9		NM	NA	4
Medians			**14.1**	**10.2**	**73.1**	**3.1**		**14.3**	**12.6**		**0.1**	**–7.1**	
Other surface													
Alexander & Baldwin	66/60	1	18.3%	26.9%	48.1%	19.5%	3	9.3%	11.7%	1	24.2%	18.5%	$6
American Presi	•/•	2	13.3[b]	11.8	62.7	4.0	1	23.4	15.5	2	–5.7	5.2	2,0
Eastern Gas & Fuel	30/32	3	3.9	10.6	58.4	7.2	4	–9.4	–13.5		NM	223.4	6
Avondale Industries	NA/NA		NA	0.7	26.9	0.7	2	9.9[d]	NA		NA	NA	5
Medians			**13.3**	**11.2**	**53.2**	**5.6**		**9.6**	**11.7**		**–5.7**	**18.5**	
Industry medians			**7.5**	**10.2**	**73.1**	**3.4**		**9.0**	**7.4**		**NM**	**17.2**	
All-industry medians			**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**	

•90% or more **DD:** Segm deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit. D-D: Deficit to deficit. D-P: Deficit to prof P-D Profit to deficit P-Z Pr Deficit NA Not available NE Negative equity NM: Not meaningful a. Three-year average. b: Four-year average. c Three-year growth d Four or further explanation, see page 77

ey stopped the proposed revision of the 1980 Staggers Act, ich authorized the deregulation of the railroads. The prosed bill, which would have led to increased government ntrol of shipping rates, was rejected by the Senate Comerce Committee by one vote. The railroads will surely have fight this battle again in 1989.

n all this, there was one black spot for shareholders. A tsburgh district court ruling has, for now, sidetracked the gional railroad movement. Sales of short-line railroads had come a way of turning marginal branch lines into profitable regional railroads. But since the Pittsburgh decision, only one short-line sale has gone through. In November, the Supreme Court agreed to review the case.

The big three truckers, Consolidated Freightways, Roadway Services and Yellow Freight, all saw earnings rebound as rates finally turned upward in the less-than-truckload (LTL) segment of the market. The top firms further tightened their grip on the market, with Roadway buying Viking Freight and American Freight System, the LTL subsidiary of American Carriers, filing for Chapter 11. ■

Big easy survivor

The past three years have been disastrous for shipbuilders. Todd Shipyards went into Chapter 11 in August 1987. Morrison Knudsen is losing money. Both General Dynamics and Lockheed have closed shipyards.

And Avondale Industries? They're doing very nicely, thank you very much. The New Orleans-based shipbuilder might also be struggling but for a fateful 1981 decision by Chief Executive Albert Bossier. With the Japanese devouring the world shipbuilding market, Bossier decided to copy their construction methods, and hired a leading Japanese shipbuilder to teach so-called modular assembly technology to his nonunion work force. What followed was a laborious five-year retraining that has now turned Avondale into one of the U.S.' lowest-cost shipbuilders. Avondale, which lost money in 1986, will likely earn $30 million on sales of $570 million in 1988.

Says Bossier, "In three or four years, it's conceivable there'll be only five or six major shipbuilders left in the U.S. I can't speak for the other people, but we intend to be profitable."

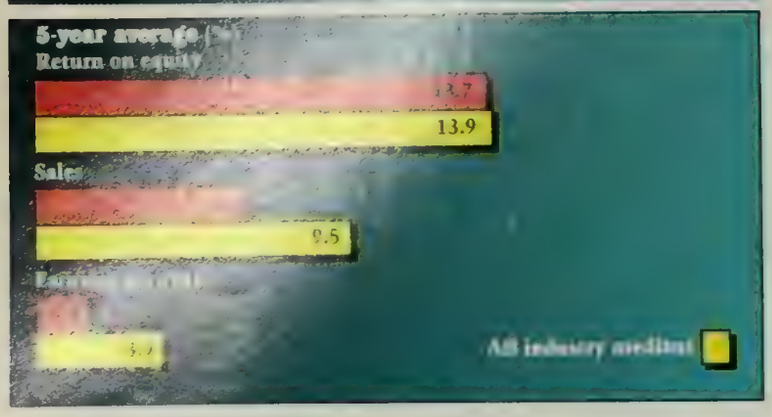
Before the company adopted modular construction, Avondale's welders and engineers would crowd into an already constructed hull to insert decks, pipes and wires. Today, Avondale's workers construct some 200 modular units at a time, in advance, for later final assembly in a completed hull. Result: a labor saving of 20%.

Avondale's employees have plenty of incentive to keep costs down. The shipbuilder was once owned by Ogden Corp., but in 1985 it was bought by Avondale's employee stock ownership plan. Last March the company was taken public, but employees still own 61% of the stock. The shares now trade at eight times 1989 estimated earnings, with sales over the last five years growing at a brisk 9% annually.

Defense contracts currently account for 85% of Avondale's revenues, so the company has moved to cut its dependence on Pentagon money by turning its modular construction skills to projects like a hydroelectric plant in Vidalia, La., and four hazardous waste treatment plants for Ogden Corp. Meanwhile, the company has a $2 billion backlog of Pentagon contracts to lean on as it moves to diversify.

Avondale Industries' Albert Bossier Tina Freeman

TELECOMMUNICATIONS



Regulators are learning they can't hold back technology forever.

By Patrice Duggan

THE YEAR JUST ENDED showed a telecommunications industry ready and able to expand into just about every niche of communications technology—if only the regulators, the legislators and the courts would get out of the way. The phone companies stepped up installation of fiber-optic cable to residential customers, and aggressively declared their intention to use their new networks to market everything from video entertainment to electronic information services. To cable TV companies, newspaper publishers and database services, those words promise bitter, and costly, legislative battles to come in Washington.

Meanwhile, there was plenty to keep phone compani busy with basic telephone service. After all, 1988 was also th year that faxes and cellular car phones became more essenti to an executive than his Mont Blanc pen.

The watershed event came in March, when U.S. Distri Court Judge Harold Greene granted the Baby Bells permissio to offer certain voice mail and so-called information gatewa services. But Judge Greene has yet to give the Baby Bells wh many want most—namely, the right to generate the conte of the signals they transmit.

Whatever Judge Greene does, there are signs that Washin ton is growing more receptive to the notion of telecommun cations deregulation. For one, the Federal Communicatio

Yardsticks of management performance		Profitability					Growth						Sales
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	latest 12 mos ($mil)
Carriers													
PacifiCorp	23/15	1	15.9%	15.1%	93.0%	13.1%	4	9.0%	2.5%	12	0.9%	6.8%	$2,22
Centel	56/85	2	15.8	14.7	109.2	11.5	16	4.1	–9.8	10	4.1	36.9	1,31
Ameritech	•/•	3	15.4[b]	16.5	55.8	12.7	15	4.5[c]	4.1	4	7.6[c]	13.0	9,84
Alltel	78/•	4	15.2	21.1	83.1	15.2	10	6.2	12.0	5	7.0	89.6	81
BellSouth	•/•	5	14.8[b]	13.9	58.7	12.7	5	8.7[c]	9.0	6	6.8[c]	2.9	13,09
Cincinnati Bell	83/•	6	14.5	19.0	58.4	11.8	8	8.3	21.7	1	12.7	41.6	71
Bell Atlantic	•/•	7	14.5[b]	14.9	56.3	12.6	7	8.5[c]	0.0	2	7.8[c]	6.3	10,29
Nynex	•/•	8	14.1[b]	14.2	68.2	10.3	6	8.5[c]	4.9	3	7.8[c]	5.5	12,52
Rochester Telephone	•/•	9	14.1	12.6	75.8	7.8	2	11.3	8.0	13	0.4	–1.4	46
So N England Telecom	•/•	10	13.9	14.0	75.3	9.8	9	6.3	7.6	7	6.7	8.4	1,55
US West	•/•	11	13.8[b]	15.0	63.0	12.6	12	5.2[c]	5.4	9	4.3[c]	20.1	8,82
Southwestern Bell	•/•	12	13.7[b]	12.2	62.4	11.9	17	3.2[c]	7.1	8	4.7[c]	–2.1	8,41
Pacific Telesis	•/•	13	13.7[b]	13.9	68.1	11.5	11	5.3[c]	6.4	11	2.4[c]	6.6	9,47
Contel	66/•	14	13.4	9.0	120.3	4.3	3	10.8	5.0	15	–16.6	–37.5	3,05
GTE	76/•	15	11.9	15.1	109.5	7.6	13	5.2	5.8		NM	17.0	16,22
American Tel & Tel	•/•	16	9.1[b]	15.0	48.2	6.3	18	0.1[c]	2.8	14	–6.3[c]	500.0+	34,45
United Telecom	79/•	17	7.2	10.2	210.4	5.1	14	5.1	6.3		NM	D-P	3,11
MCI Communications	•/•	18	2.4	19.2	213.5	5.5	1	29.6	24.1		NM	D-P	4,74
Western Union	•/•	19	def[b]	def	NE	def	19	–4.9	6.8		NM	D-D	[illegible]
Medians			13.9	14.7	68.2	11.5		6.2	6.3		4.1	8.4	

•90% or more **DD:** Seg[illegible] deficit **DP:** Segment deficit, total profit **PD:** Segment profit, total deficit D-D: Deficit to deficit. D-P: Deficit to profit P-D: Profit to deficit def: [illegible] NA: [illegible] available NE: Negative equity NM: Not meaningful. a: Three-year average. b: Four-year average. c: Three-year growth. d: Four year growth For further explan[illegible] see page [illegible]

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Commission has urged Congress to lift its ban on cross-ownership of cable TV systems by telephone companies. For another, the FCC permitted AT&T to offer discounted long-distance tariffs to special customers, enabling it to fight off challenges from less regulated rivals like MCI and US Sprint.

AT&T hopes for important changes in rate of return regulation in the first quarter of this year. By imposing price caps instead of limiting its return on assets, regulators wo allow AT&T more freedom to increase earnings by cutt costs. Meanwhile, 33 states have implemented regulat reforms for local carriers. NYNEX, for one, is now allowe exceed its previous limit of 14% return on equity in N York State so long as it passes half of its gain to custom possibly in the form of rate cuts.

The FCC is also moving ahead with its attempt to create Open Network Architecture. Its purpose: to ensure that Baby Bell operating companies can continue to function unified network. This will become more important as regi begin to figure out different ways of handling new servi like automatic number identification or voice mail. ■

Yardsticks of management performance		Profitability					Growth						Sal
		Return on equity					Sales			Earnings per share			
Company	% in —segment— sales/profits	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months	lates 12 m ($mil
Manufacturing													
Northern Telecom	•/•	1	19.3%	13.8%	20.4%	6.7%	2	15.7%	5.2%	1	19.8%	0.4%	$5,1
Motorola	36/46	2	11.2	14.1	10.6	5.4	3	11.4	21.8	2	–1.2	56.5	7,8
Penn Central	50/40	3	5.2	4.6	10.2	5.1	6	–11.3	–7.8		NM	–31.7	1,4
Scientific-Atlanta	71/•	4	5.1	13.8	1.2	6.0	4	9.3	–2.1		NM	13.3	9
TIE/Communications	•/•	5	def	def	5.1	def	5	3.5	–1.5		NM	D-D	2
Itel	66/29	6	def[b]	6.0	232.4	2.0	1	36.2	54.2		NA	D-P	1,5
Medians			5.2	9.9	10.4	5.2		10.3	1.8		NM	6.8	
Industry medians			13.7	14.0	63.0	7.8		6.3	5.8		1.6	8.4	
All-industry medians			13.9	14.1	45.7	4.9		9.5	11.6		3.9	18.4	

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Rocky road

For much of the 1980s GTE Corp. was a company adrift. Burdened by losses from US Sprint, its joint venture nto the long-distance telephone market, GTE consistently inderwhelmed Wall Street with flat to falling earnings and growth that lagged not just the industry but much of the economy. "This company was unexciting and going nowhere," says Robert Morris of Goldman, Sachs & Co.

Then the board filled the hot seat with James (Rocky) ohnson, 61, a company veteran who joined 39 years ago as in accountant. His mission: to turn the company around.

In the nine months Johnson has been in command, he's been doing just that, specifically by refocusing the company away from distracting diversification efforts and toward ts traditional businesses, one of which is providing local elephone service.

Gone is the consumer communications unit, which nade answering machines and telephones. Gone also is GTE's digital central office switching system operation, eventually to belong to AT&T. Gone, finally and most mportant, is GTE's involvement in US Sprint, which as a esult will be 100% owned by GTE's partner in the venture, Jnited Telecom. Johnson is also reorganizing the telephone operation and ultimately will leave GTE with 14,000 ewer workers.

GTE, free of Sprint's losses, already shows signs of mproved earnings. Earnings for 1988 are expected to be iround $3.60 a share, up 9% from 1987. That has given ohnson the leeway to increase dividends by 6.3%. Johnson has also announced an aggressive plan to repurchase up to 25 million shares of common stock.

Has Wall Street recognized a turnaround? Apparently not. Looking at estimated earnings for 1990, the stock has a price/earnings ratio of nearly 9—decidedly below the standard in this industry.

James (Rocky) Johnson of GTE Alan Goldsmith

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WHO'S WHERE IN GROWTH

Latest 12-month earnings are up a remarkable 18.4% for the 1,116 corporations in this survey.

By Steve Kichen

AMERICAN COMPANIES had a very profitable year in 1988. Consensus estimates collected by the New York brokerage firm of Lynch, Jones & Ryan indicate that 1988 earnings for the S&P 500 will be up about 35% over 1987. The gain is enhanced by the massive writeoffs of bad loans several major banks had taken the year before. Even so, Lynch, Jones & Ryan Vice President Stanley Levine reports that the S&P 400 (the 500 minus banks and other regulated industries) will report a 29% earnings increase on average in 1988.

The analysts' outlook for 1989: a less spectacular but still respectable 10% gain in profits for both the S&P 500 and the S&P 400. Clearly, Wall Street analysts, in the main, do not expect a recession.

Of the ten corporations with the fastest long-term earnings growth, three are computer companies—Compaq Computer, Sun Microsystems and Wyse Technology. Three years ago none qualified for the FORBES industry survey, but look at them now. Compaq had latest 12-month sales of $1.8 billion; Sun, $1.2 billion; and Wyse, $551 million.

Compaq, with a four-year average earnings growth rate of 118%, has increased per-share earnings 84% over the past 12 months. It has exploited the gaps in IBM's microcomputer line, boosting revenues 87% over the past 12 months.

The top-ranked computer companies have shown exceptional growth rates even though they're no longer startups with the power of exponential growth. It's easier for a firm with $1 million in sales to double revenues than for a $1 billion corporation to pull off the same trick.

Nothing goes up forever. Of the top 25 firms ranked on five-year average earnings growth, 11 show declining earnings over the most recent 12 months. Reebok International, Anchor Glass and Chrysler are likely to rank lower on next year's survey. ■

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
Reebok International	1	200.0+%	–1.7%	2	254.2%	39.3%
Anchor Glass	2	164.6[c]	–76.3	204	19.7	52.0
CalMat	3	122.7	–22.0	162	23.0	–11.9
Sun Microsystems	4	120.6[d]	57.3	4	170.3[d]	95.9
Compaq Computer	5	118.4[d]	84.4	22	72.3[d]	87.0
Envirodyne Industries	6	118.1	30.5	11	135.9	7.4
Danaher	7	112.4[c]	102.5	[illegible]	146.1	23.4
Wyse Technology	8	93.5	5.3	7	150.4	64.9
GenCorp	9	92.3	57.8	937	–0.2	–13.4
SPS Technologies	10	82.3	–46.4	376	13.0	5.9
Reliance Group	[illegible]	80.7	–63.9	309	15.2	3.8
TW Services	[illegible]	[illegible][d]	160.8	225	19.0	64.0
First Capital Holdin	[illegible]	[illegible][d]	9.7	1	500.0+[d]	128.6
[illegible]	[illegible]	[illegible]	–77.1	880	1.7	80.0
[illegible]	[illegible]	[illegible]	13.0	285	16.0	14.9
Williams Inds	[illegible]	[illegible]	47.3	638	7.6	20.4
Harman International	17	[illegible]	18.7	234	18.6	34.0
Microsoft	18	[illegible]	[illegible]	30	65.9	74.1
Chrysler	19	[illegible]	[illegible]	185	20.4	25.6
Boise Cascade	20	6[illegible]	[illegible]	780	4.6	6.3
GlenFed	21	66.[illegible]	[illegible]	166	22.4	11.1
Pilgrim's Pride	22	65.1	[illegible]	392	12.6	20.1
Best Buy Co	23	64.1%	–72.9%	15	112.3%	50.4%
American Express	24	63.0[d]	–46.0	115	29.2	22.1
Mark IV Industries	25	61.2	27.0	18	86.3	33.2
Harley-Davidson	26	60.5[d]	49.1	200	19.9	23.1
Longview Fibre	27	60.4	49.6	580	8.6	12.2
Shaw Industries	28	59.2	35.3	155	23.6	46.3
Dixie Yarns	29	57.8	–18.7	319	14.9	23.0
Foodarama Supermkts	30	56.5	130.8	867	2.3	2.3
Affiliated Pubs	31	56.4	P-D	389	12.7	14.6
Marion Laboratories	32	56.3	50.0	106	31.0	22.4
Consolidated Stores	33	54.5	–2.9	10	138.7	20.5
Jepson	34	53.7[c]	–35.0	9	140.1[d]	9.5
MMR Holding	35	53.5	50.5	52	45.2	55.8
Spiegel	36	53.4	–19.8	252	17.3	15.4
Oshkosh Truck	37	53.3	–39.7	80	35.1	–12.6
NWA	38	52.5	–14.3	183	20.7	7.3
Liz Claiborne	39	51.9	–5.1	51	46.7	12.5
Amdahl	40	51.8	57.4	181	20.9	28.0
Healthco International	41	51.8	66.4	393	12.5	13.4
Cray Research	42	51.5	–24.3	59	41.7	–11.0
Price Co	43	51.5	28.7	40	55.7	25.2
Boston Edison	44	51.3	–38.3	884	1.6	5.6

D-D Deficit to deficit D-P Deficit to [illegible] [illegible]it to deficit NA Not available NM Not meaningful c Three-year growth d Four-year growth

mpany	rank	Earnings per share 5-year average	Earnings per share latest 12 months	rank	Sales 5-year average	Sales latest 12 months	Company	rank	Earnings per share 5-year average	Earnings per share latest 12 months	rank	Sales 5-year average	Sales latest 12 months
Am First Savings	45	51.1%[d]	–61.0%	141	25.4%	8.3%	Himont	112	28.5%[c]	42.8%	603	8.3%[c]	48.0%
orgia-Pacific	46	50.9	14.6	623	7.9	12.5	Hudson Foods	113	28.2[c]	–70.9	524	9.9	28.0
lston Purina	47	50.7	–22.6	789	4.5	0.1	Loews	114	28.2	90.6	273	16.6	16.3
son Foods	48	50.5	19.8	116	29.2	8.4	Charming Shoppes	115	28.1	–27.8	111	29.8	16.4
rcuit City Stores	49	49.4	37.0	62	40.7	32.7	Safeco	116	28.1	–11.1	401	12.3	8.1
bany International	50	49.4[c]	37.5	411	12.2	16.1	Manor Care	117	28.0	P-D	353	13.7	8.2
ecision Castparts	51	49.1	–6.9	65	40.3	11.2	Textron	118	28.0	–15.7	146	24.4	–2.7
neral Motors EDS	52	48.8	32.4	36	61.8	7.3	Washington Post	119	28.0	86.9	488	10.7	6.1
rcourt Brace	53	47.7	D-P	347	14.0	26.5	Quaker Oats	120	27.7	3.0	491	10.6	16.2
IP International	54	47.3[d]	217.3	68	39.2	41.4	Arvin Industries	121	27.5	–76.5	186	20.3	–2.5
mputer Associates	55	45.8	90.2	57	42.4	39.6	Fred Meyer	122	27.3	17.4	472	11.0	10.1
sco Industries	56	45.8[c]	–26.1	142	25.2	26.1	Handleman	123	27.1	28.0	261	17.0	18.4
nited	57	45.8	–23.5	66	39.7	6.5	Home Federal S&L	124	27.1[d]	6.2	315	15.0	23.5
dson	58	45.6[c]	–29.0	14	118.7	58.6	Hanover Insurance	125	27.0	3.4	206	19.7	14.8
ogressive	59	45.0[d]	–7.5	84	34.8	34.3	Gt Western Financial	126	27.0[d]	–32.5	158	23.4	–28.4
inova	60	44.7	25.6	585	8.5	16.6	General Public Utils	127	26.4	20.1	854	2.7	3.2
ithfield Foods	61	43.9	105.8	171	22.2	–18.8	Time Inc	128	26.4	38.2	434	11.9	8.7
ibune	62	43.4	64.5	582	8.6	8.2	Nashua	129	26.3[d]	33.5	637	7.6	20.0
mstrong World Inds	63	43.4	16.3	422	12.0	14.3	CBS	130	26.2	206.7	1022	–5.1	–15.4
yfair Super Markets	64	43.4	22.4	574	8.7	17.6	Rollins	131	26.1	15.4	661	7.1	7.7
G	65	42.7	–57.9	254	17.3	–15.1	ICH	132	26.1[d]	P-D	20	73.3	17.0
erlake	66	42.7	28.4	935	–0.1	10.9	Stanhome	133	26.1	28.0	423	12.0	12.8
lt Disney	67	42.5	17.6	165	23.0	19.5	Chubb	134	26.0	–5.8	190	20.3	7.8
olab	68	42.5[d]	–73.4	359	13.5	30.8	Torchmark	135	25.9	0.7	304	15.4	2.6
IC	69	42.2	–40.2	990	–2.9	6.5	Holly Farms	136	25.3	2.1	820	3.6	16.8
tlatch	70	42.2	26.9	837	3.3	7.0	Yellow Freight Sys	137	25.2	53.6	341	14.1	12.5
rtford Steam Boiler	71	41.3	21.2	328	14.6	7.0	PepsiCo	138	25.0	28.0	621	7.9	10.3
ferson Smurfit	72	40.8	94.5	198	20.0	17.5	Marsh Supermarkets	139	24.9	–0.3	584	8.5	8.8
gate Technology	73	40.2	–93.1	19	75.2	35.0	Waste Management	140	24.7	–8.5	152	23.7	30.7
P	74	39.7	26.1	25	71.3	38.0	Fleetwood Enterprises	141	24.5	22.3	322	14.7	12.5
land Group	75	39.6	0.8	119	28.7	1.0	Kentucky Central Life	142	24.3	–27.5	95	32.8	3.6
rthrop	76	39.4	225.9	192	20.1	–1.9	Comdisco	143	24.3	–81.9	216	19.3	13.5
me Depot	77	39.3	61.1	34	63.3	49.0	Alexander & Baldwin	144	24.2	18.5	549	9.3	11.7
uisiana-Pacific	78	39.2[d]	21.9	313	15.1	0.2	Mead	145	24.2[d]	128.3	543	9.6	10.0
ndard Products	79	38.7	22.8	280	16.3	11.7	Super Food Services	146	24.2	20.2	715	6.1	2.5
ufman & Broad	80	38.2[d]	–15.9	117	29.1	43.3	Quantum Chemical	147	24.2	83.1	793	4.4	32.0
den Group	81	37.8	94.3	1034	–5.8	–4.2	Philips Industries	148	24.2	11.3	256	17.2	22.9
stern S&L	82	37.0[d]	–94.6	232	18.6	14.4	Apple Computer	149	23.9	86.7	97	32.3	53.0
rkshire Hathaway	83	36.7	68.4	58	41.9	–1.7	Golden West Finl	150	23.8[d]	–23.5	457	11.3	3.8
erican Family	84	36.6	–5.3	136	25.8	27.0	VWR Corp	151	23.8[c]	–34.2	560	9.1	14.5
sten	85	36.4	38.5	122	28.2	31.4	SCI Systems	152	23.5	18.8	61	41.4	47.2
laroid	86	35.9	–77.5	671	7.0	4.1	Monarch Capital	153	23.5	–52.3	47	51.0	–59.7
llage Super Market	87	35.9	6.4	431	11.9	9.5	Dillard Dept Stores	154	23.4	21.4	130	26.5	21.4
l-Mart Stores	88	35.3	35.7	73	36.4	28.8	La-Z-Boy Chair	155	23.4	9.2	222	19.1	17.6
western Natl Life	89	35.0	–28.7	78	35.4	7.2	Morgan Products Ltd	156	23.4[c]	–26.8	114	29.2	1.6
rcules	90	34.5	–76.6	898	1.2	2.9	Ford Motor	157	23.3[d]	20.1	372	13.2	15.1
ico	91	34.5	–26.1	306	15.3	9.7	Kellwood	158	23.3	16.0	972	–1.9	20.2
lbro	92	34.2	–70.2	324	14.7	10.3	Marsh & McLennan	159	23.3	1.7	208	19.7	7.9
tna Life & Cas	93	34.1	–20.1	501	10.4	7.0	Ethyl	160	23.3	24.8	938	–0.2	19.9
eat A&P Tea	94	33.9	28.3	308	15.3	6.6	Crown Cork & Seal	161	23.3	16.9	724	5.7	7.8
p	95	33.8	–20.7	213	19.5	24.8	Esselte Business Sys	162	23.0	14.3	228	18.9	19.9
lly Services	96	32.3	30.5	160	23.2	12.7	PH Glatfelter	163	22.9	47.6	581	8.6	49.9
ergraph	97	32.1	36.0	93	33.0	29.4	Weyerhaeuser	164	22.8	29.1	573	8.8	15.6
ro	98	31.2[c]	21.1	191	20.2	16.9	US Healthcare	165	22.7	–78.3	29	67.2	21.6
sbro	99	31.0	–2.0	32	64.2	1.2	Dow Chemical	166	22.6	103.6	828	3.5	27.1
ntinental Info Sys	100	30.9	–99.1	53	44.5	115.1	Squibb	167	22.5	–18.0	800	4.1	21.4
ident Loan	101	30.8	30.9	311	15.1	35.8	Genlyte Group	168	22.5[d]	NA	504	10.4[d]	10.4
Ahmanson	102	30.8[d]	–27.0	654	7.2	20.9	First Amer Financial	169	22.5[d]	–63.8	144	25.0[d]	–6.2
stern Publishing	103	30.8[c]	75.0	424	12.0	39.3	Chesapeake	170	22.4	131.5	145	24.9	6.1
od Lion	104	30.7	37.5	135	26.0	25.2	Capital Holding	171	22.3	–40.4	357	13.5	3.0
JA Financial	105	30.6	53.5	210	19.6	10.8	Toys "R" Us	172	22.2	41.0	150	23.9	38.5
ultz Sav-O Stores	106	30.4	4.9	848	2.9	–0.3	Primerica	173	22.1[d]	1.1	1013	–4.4	22.0
th Century Inds	107	30.3	15.1	86	34.2	22.9	Nordstrom	174	22.0	26.7	133	26.3	17.7
I Corp	108	30.0	100.9	290	16.0	32.0	Tandem Computers	175	21.8	–11.1	138	25.6	27.0
mis	109	28.9	26.4	693	6.5	13.4	HON Industries	176	21.8	–2.4	342	14.1	6.6
rnival Cruise Lines	110	28.8	8.6	170	22.2	10.1	Helene Curtis Inds	177	21.7	39.9	409	12.2	24.9
tt Paper	111	28.6	76.5	417	12.1	13.4	Becton Dickinson	178	21.6	17.3	685	6.6	8.1

D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. NA: Not available. NM: Not meaningful. c: Three-year growth. d: Four-year growth.

WHO'S WHERE IN GROWTH

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
Union Bank	[illegible]	[illegible]	[illegible]	805	4.0%	7.9%
Maytag	[illegible]	[illegible]	-3.8	551	9.3	-1.1
Temple-Inland	[illegible]	[illegible]	[illegible]	695	6.4	10.6
PPG Industries	[illegible]	[illegible]	-1.4	567	8.9	9.0
Equitable of Iowa	[illegible]	[illegible]	1.9	858	2.6	17.9
New York Times	[illegible]	[illegible]	4.8	390	12.7	4.8
Leggett & Platt	[illegible]	[illegible]	-3.9	236	18.4	20.3
Philip Morris Cos	[illegible]	[illegible]	31.2	172	22.1	8.0
Circus Circus	[illegible]	[illegible]	63.6	233	18.6	23.2
Nacco Industries	[illegible]	[illegible]	16.8	842	3.2	14.5
American Intl Group	189	20.3	9.8	126	27.3	21.6
Ryder System	190	20.1	18.0	174	21.9	21.6
Hexcel	191	20.1	7.2	147	24.2	33.7
Consolidated Papers	192	20.0	77.2	705	6.2	23.7
Reynolds & Reynolds	193	20.0	-12.0	215	19.4	6.6
Carter-Wallace	194	20.0	16.3	479	10.9	7.2
FW Woolworth	195	19.9d	18.4	688	6.5	11.5
Northern Telecom	196	19.8	0.4	298	15.7	5.2
Digital Equipment	197	19.8	4.2	203	19.8	20.3
First Union	198	19.6	1.1	221	19.1	3.2
Pitney Bowes	199	19.6	26.5	583	8.6	6.9
Circle K	200	19.6d	12.1	109	30.6	14.9
Deluxe Corp	201	19.6	0.6	444	11.6	19.6
Bandag	202	19.5	19.2	629	7.7	17.1
HB Fuller	203	19.5	-0.8	478	10.9	12.6
Family Dollar Stores	204	19.4	14.0	173	22.1	19.5
Paccar	205	19.2	61.2	429	11.9	30.5
Marriott	206	19.2	16.9	184	20.6	13.8
ConAgra	207	19.2	14.5	67	39.4	7.6
Kinder-Care	208	19.2	-11.4	85	34.4	64.1
Owens & Minor	209	19.0	4.9	169	22.2	27.1
Phillips-Van Heusen	210	19.0	-12.3	893	1.3	30.2
Argonaut Group	211	18.9c	142.5	958	-0.9	9.2
Kraft	212	18.8	163.7	745	5.4	11.8
Corning Glass Works	213	18.7	90.5	744	5.4	6.9
Household Intl	214	18.6	1.6	1100	-20.8	35.4
Sherwin-Williams	215	18.6	-8.0	981	-2.3	10.1
Loral	216	18.4	25.6	94	32.9	43.9
Kaman	217	18.2	15.9	521	9.9	12.2
Times Mirror	218	18.2	-6.5	686	6.6	6.1
Abbott Laboratories	219	18.2	20.5	499	10.5	15.3
Ferro	220	18.2	48.4	669	7.0	18.7
Merck	221	18.2	38.8	539	9.7	20.4
Vulcan Materials	222	18.2	36.3	763	5.0	0.2
Dominion Bankshares	223	18.1	1.4	329	14.5	23.2
Ingles Markets	224	18.1	12.7	418	12.1	16.0
A Schulman	225	18.1	39.8	398	12.4	28.9
Nucor	226	18.1	45.1	433	11.9	28.8
International Paper	227	18.0	63.7	427	11.9	16.7
CR Bard	228	17.8	27.6	437	11.7	18.5
Cincinnati Financial	229	17.7	33.3	229	18.8	5.1
Noxell	230	17.6	16.7	373	13.1	6.1
Upjohn	231	17.6	16.4	725	5.7	9.0
Service Corp Intl	232	17.6	8.9	294	15.9	23.6
Masco	233	17.5	7.7	272	16.6	24.8
Zayre	234	17.4	P-D	148	24.2	-23.7
Worthington Inds	235	17.4	41.7	316	15.0	12.5
Teledyne	236	17.4	83.1	871	2.2	3.7
Homestead Financial	237	17.4	P-D	54	44.3	-10.3
Bruno's	238	17.4	21.8	268	16.8	45.6
Kellogg	239	[illegible]	21.0	498	10.5	16.1
Federal Paper Board	240	[illegible]	61.1	283	16.1	4.9
Pep Boys	241	[illegible]	5.1	291	15.9	15.6
Browning-Ferris Inds	242	17.3	28.8	245	17.7	27.3
Coca-Cola Enterprises	243	[illegible]	55.3	60	41.6	12.7
Dow Jones	244	17.1	18.4	447	11.5	32.9
Columbia S&L Assoc	245	17.1	95.0	35	61.9	-2.1

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
Valspar	246	17.1%	6.6%	134	26.2%	17.5%
Bausch & Lomb	247	16.9	16.3	536	9.7	13.5
Great Lakes Chemical	248	16.9	93.2	230	18.8	30.1
Holiday	249	16.9	-20.3	856	2.6	-3.9
General Re	250	16.9	3.0	211	19.6	-16.3
Dana	251	16.9	26.5	496	10.5	21.4
Equifax	252	16.8	23.4	547	9.5	10.1
Burlington Coat	253	16.7	4.7	127	27.3	21.1
Snap-on Tools	254	16.7	35.6	405	12.3	13.8
UST Inc	255	16.7	28.3	445	11.6	10.2
Rockwell Intl	256	16.6	33.9	436	11.9	-1.5
Sonoco Products	257	16.6	30.4	247	17.6	32.7
First of America Bank	258	16.4	6.0	487	10.7	21.5
Illinois Tool Works	259	16.4	21.3	124	28.1	15.0
South Carolina Natl	260	16.4	6.4	270	16.7	11.9
Hannaford Bros	261	16.4	16.7	375	13.1	16.1
Aon	262	16.4	-1.3	260	17.0	22.8
Alberto-Culver	263	16.3	55.5	511	10.2	17.5
Herman Miller	264	16.3	26.8	325	14.6	23.4
Wm Wrigley Jr	265	16.3	34.4	713	6.1	14.6
Standard Register	266	16.2	2.8	318	14.9	1.1
RR Donnelley & Sons	267	16.1	-6.1	400	12.3	15.9
Westinghouse	268	16.1	10.7	863	2.5	9.4
Kimball International	269	16.1	0.3	337	14.3	6.0
Old Kent Financial	270	15.9	16.2	351	13.8	19.1
Russell	271	15.9	14.7	448	11.5	10.0
Interpublic Group	272	15.8	23.3	446	11.6	20.2
Cooper Cos	273	15.8	P-D	81	34.9	75.4
Automatic Data	274	15.6	22.8	288	16.0	11.2
TBC Corp	275	15.6	48.8	722	5.8	11.1
Anheuser-Busch Cos	276	15.6	20.2	460	11.3	7.8
Strawbridge	277	15.4	10.9	467	11.2	11.9
Cardinal Distribution	278	15.4	126.1	87	34.1	3.6
Stanley Works	279	15.4	19.8	402	12.3	11.4
Farmers Group	280	15.4	24.6	403	12.3	6.2
Rohm & Haas	281	15.3	23.4	824	3.6	15.5
Alco Health Services	282	15.3c	11.5	120	28.4	18.8
MNC Financial	283	15.3	18.3	381	12.9	26.3
Kemper	284	15.3	-22.1	352	13.7	6.8
Westvaco	285	15.2	37.8	729	5.6	12.1
Capital Cities/ABC	286	15.2	47.3	45	52.0	15.3
Coca-Cola	287	15.1	-0.4	747	5.3	6.2
Rite Aid	288	15.1	-24.3	362	13.5	31.2
Skyline	289	15.0	8.9	857	2.6	6.2
United Jersey Banks	290	15.0	8.0	529	9.8	30.8
Newell Co	291	14.8	54.3	123	28.1	76.0
Shoney's	292	14.8	15.0	281	16.3	5.2
Computer Sciences	293	14.8	26.6	451	11.4	8.3
Barnett Banks	294	14.7	21.3	153	23.7	17.9
Loctite	295	14.7	35.6	596	8.4	18.9
Winnebago Industries	296	14.6	-85.9	189	20.3	4.6
Figgie Intl	297	14.6	30.2	577	8.7	16.6
Harsco	298	14.6	20.1	726	5.6	17.8
SouthTrust	299	14.5	9.7	383	12.9	23.4
General Host	300	14.3	P-D	1009	-4.0	-25.9
Lincoln National	301	14.3	-58.9	299	15.7	1.3
Fuqua Industries	302	14.3	147.9	844	3.1	20.6
General Motors	303	14.2	35.5	463	11.3	6.8
Commerce Clearing	304	14.1	4.5	540	9.7	9.0
McDonald's	305	14.1	18.5	425	12.0	15.6
First Federal Mich	306	14.0d	-74.6	201	19.8	-8.0
Rorer Group	307	14.0	132.1	264	16.9	8.9
Jefferson-Pilot	308	13.9	-44.3	808	4.0	5.4
Highland Superstores	309	13.8	-54.2	83	34.9	19.0
United Stationers	310	13.8	51.5	139	25.4	17.3
Clorox	311	13.8	16.6	731	5.6	13.3
SunTrust Banks	312	13.8	17.8	379	13.0	11.9

D-D: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. NA: Not available. NM: Not meaningful. c: Three-year growth. d: Four-year growth.

npany	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months	Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
omac Electric	313	13.7%	–2.8%	784	4.5%	–0.7%	Wetterau	380	10.9%	13.8%	386	12.8%	17.8%
ıston Industries	314	13.6	–8.2	971	–1.9	0.2	Detroit Edison	381	10.9	–42.2	684	6.6	4.9
V Grainger	315	13.6	26.8	517	10.0	16.4	Flowers Industries	382	10.7	53.0	473	11.0	–6.4
ıc One	316	13.6	42.6	365	13.4	33.0	Ramada	383	10.7[d]	–84.6	716	6.1	–27.8
ertson's	317	13.6	38.0	612	8.2	13.5	Sysco	384	10.6	48.2	275	16.5	28.2
lex	318	13.5	37.0	238	18.2	30.2	American Continental	385	10.6	123.7	149	24.1	–4.8
:er	319	13.5	11.4	672	6.9	10.1	Knight-Ridder	386	10.6	10.2	562	9.1	0.2
ıand	320	13.4	–5.9	395	12.5	7.6	Jostens	387	10.5	91.2	495	10.5	–3.4
io Casualty	321	13.4	–33.8	388	12.8	0.9	Universal	388	10.5	2.9	610	8.2	15.7
Banks	322	13.4	16.8	407	12.3	19.3	Old Republic Intl	389	10.5	–0.7	110	30.3	–6.9
l	323	13.3	18.3	321	14.8	11.4	Millipore	390	10.5	20.8	336	14.3	21.3
R	324	13.2	28.0	542	9.6	11.3	Boeing	391	10.4	11.4	399	12.4	6.0
lenbrand Inds	325	13.2	31.0	371	13.2	20.0	Child World	392	10.4[c]	–7.1	180	21.1	15.2
ıtol-Myers	326	13.1	16.7	615	8.1	11.6	Valhi	393	10.3[d]	–56.3	101	31.8	125.7
iety	327	13.0	10.2	255	17.2	8.5	Campbell Soup	394	10.2	–1.8	561	9.1	8.4
ran Financial	328	12.9	10.0	334	14.4	18.0	Baltimore G&E	395	10.2	2.3	852	2.8	–2.5
ler System	329	12.9	–30.3	259	17.1	11.8	Laclede Gas	396	10.2	9.0	1031	–5.6	8.2
Heinz	330	12.8	17.1	776	4.8	11.9	Puget Sound P&L	397	10.1	4.9	533	9.8	7.4
ıart	331	12.8	9.5	568	8.8	6.1	Owens-Corning	398	10.1	–12.5	728	5.6	–7.6
n & Bradstreet	332	12.8	2.6	187	20.3	23.3	KeyCorp	399	10.1	–15.5	105	31.0	23.0
erican Water	333	12.8	–0.5	619	8.0	5.0	GM Hughes Electron	400	10.1[c]	20.0	214	19.5	3.8
R Block	334	12.7	17.8	195	20.0	13.2	Hershey Foods	401	10.1	44.4	566	8.9	–9.3
erican Cyanamid	335	12.7	15.6	843	3.1	10.4	Marshall & Ilsley	402	10.0	15.5	368	13.3	14.8
lgreen	336	12.7	25.0	293	15.9	14.1	Provident Life & Acc	403	10.0	–49.4	218	19.3	12.3
y Dept Stores	337	12.7	18.1	578	8.6	–0.3	Centex	404	10.0	9.4	588	8.5	23.0
ɔbell	338	12.7	15.5	632	7.7	5.2	Eli Lilly	405	10.0	14.0	766	5.0	6.0
cinnati Bell	339	12.7	41.6	602	8.3	21.7	Raychem	406	9.9	40.9	441	11.6	14.0
lville	340	12.6	20.7	428	11.9	15.2	Transamerica	407	9.8	–17.3	516	10.0	14.2
ıes River Corp Va	341	12.6	22.0	88	33.9	15.6	NCH Corp	408	9.7	49.2	786	4.5	15.5
her-Daniels	342	12.6	28.9	590	8.4	19.9	Columbia Pictures	409	9.7	P-D	188	20.3	16.0
rcantile Stores	343	12.6	9.1	594	8.4	5.1	Lincoln Electric	410	9.7	71.1	807	4.0	22.7
izens & Southern	344	12.6	32.4	346	14.0	12.6	AmSouth Bancorp	411	9.6	–17.1	469	11.2	27.7
t Wachovia	345	12.5	15.6	604	8.3	11.7	Bancorp Hawaii	412	9.5	39.4	643	7.4	17.6
C International	346	12.5	–14.5	821	3.6	–9.1	American Home Prod	413	9.5	11.1	886	1.6	8.1
kheed	347	12.5	78.2	302	15.5	–1.4	American General	414	9.5	–27.4	271	16.6	–13.2
den	348	12.5	17.4	600	8.4	16.4	Gt Northern Nekoosa	415	9.4	70.9	449	11.5	46.1
ɔdyear	349	12.5	–7.8	901	1.1	10.0	Lowe's Cos	416	9.4	3.4	237	18.4	2.7
l Corp	350	12.5	–12.0	804	4.1	–3.3	Comerica	417	9.3	69.4	767	5.0	9.2
Bear	351	12.3	21.0	699	6.3	6.8	American Natl Ins	418	9.3	–57.7	798	4.2	9.3
gram	352	12.3	28.7	550	9.3	24.2	Atlantic Energy	419	9.2	9.4	676	6.8	3.4
ınta Gas Light	353	12.3	10.3	953	–0.7	–0.8	General Mills	420	9.2	118.1	737	5.5	0.3
ɔmas & Betts	354	12.3	24.0	518	10.0	22.1	Southwest Gas	421	9.2	16.0	778	4.7	18.9
lu Pont de Nemours	355	12.2	27.3	932	0.0	11.0	AMP	422	9.2	34.9	464	11.3	19.0
D Bancorp	356	12.2	34.5	606	8.3	11.1	Intl Flavors & Frags	423	9.2	22.8	497	10.5	17.6
lvy Group	357	12.2	14.1	246	17.7	19.3	Crane	424	9.1[c]	7.7	286	16.0[d]	–9.8
ghes Supply	358	12.1	30.3	265	16.9	29.7	Lubrizol	425	9.1	–13.0	741	5.4	10.0
inett	359	12.1	16.9	295	15.8	7.2	First Maryland Bncp	426	9.0	17.4	569	8.8	10.3
ɔper Industries	360	12.1	21.9	378	13.0	19.1	First American	427	9.0	–30.1	312	15.1	20.1
nt Food	361	12.1	70.7	613	8.1	7.3	Premier Industrial	428	9.0	29.7	620	8.0	15.6
theon	362	12.0	23.4	675	6.9	7.3	Foremost Corp of Am	429	9.0	–21.1	358	13.5	–8.6
ıbrands	363	11.9	13.7	384	12.9	7.8	Schering-Plough	430	9.0	29.7	586	8.5	9.8
ın Foods	364	11.9	9.2	340	14.2	9.6	Shawmut National	431	8.9	26.1	370	13.2	18.9
ida Progress	365	11.9	–9.5	480	10.8	7.2	Square D	432	8.9	3.0	677	6.8	10.8
ted Brands	366	11.9[d]	30.2	963	–1.2	6.4	Edgcomb	433	8.8	97.0	37	60.1	11.4
ker-Hannifin	367	11.9	15.6	396	12.4	20.0	Midlantic	434	8.8	29.1	307	15.3	17.2
e Street Boston	368	11.9	9.5	476	10.9	20.2	MDC Holdings	435	8.8	P-D	39	58.7	–13.4
ı Lee	369	11.8	22.0	605	8.3	14.5	Meridian Bancorp	436	8.8	–26.3	207	19.7	38.2
vaiian Electric	370	11.7	–8.6	978	–2.2	16.8	SmithKline Beckman	437	8.7	–60.7	593	8.4	11.9
ɔn	371	11.6[d]	8.1	673	6.9	1.2	Ipalco Enterprises	438	8.7	–30.5	687	6.6	9.0
ıberly-Clark	372	11.6	31.4	503	10.4	10.8	National Service	439	8.7	13.6	557	9.2	6.6
co	373	11.5	–4.5	904	1.0	13.4	Consol Freightways	440	8.7	24.2	335	14.3	16.3
is Markets	374	11.4	11.1	674	6.9	2.8	General Cinema	441	8.5	–10.5	846	3.1	96.5
ıas Financial	375	11.4	P-D	99	32.0	59.9	Nash Finch	442	8.5	27.0	450	11.4	5.4
A Hormel	376	11.4	4.7	510	10.3	7.9	Freeport-McMoRan	443	8.4	37.8	548	9.4[d]	26.6
Nabisco	377	11.3	17.4	385	12.9	5.2	Ames Dept Stores	444	8.4	71.9	64	40.4	11.9
eStates Financial	378	11.2	14.9	361	13.5	9.7	Dominion Resources	445	8.4	–3.9	704	6.3	–0.9
	379	11.0	8.2	182	20.8	5.2	US Bancorp	446	8.3	–1.1	515	10.1	27.9

: Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. NA: Not available. NM: Not meaningful. c: Three-year growth. d: Four-year growth.

WHO'S WHERE IN GROWTH

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months	Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 1 months
Pillsbury	447	8.2%	–62.9%	355	13.6%	0.3%	Trustcorp	514	5.4%	33.6%	129	26.8%	27.0%
Echlin	448	8.1	27.3	257	17.2	17.7	Union Camp	515	5.3	50.8	630	7.7	15.8
Durr-Fillauer	449	8.1	–16.0	175	21.7	9.8	McDonnell Douglas	516	5.3	–0.8	360	13.5	5.3
Genuine Parts	450	8.1	27.2	730	5.6	12.9	Central Steel & Wire	517	5.2	151.9	665	7.0	22.8
Dexter	451	8.1	–6.8	649	7.3	10.7	McKesson	518	5.2	8.3	349	13.8	3.4
Ohio Mattress	452	8.0	42.3	48	50.4	26.6	Rose's Stores	519	5.2	–53.8	333	14.4	5.1
Hewlett-Packard	453	8.0	34.4	350	13.8	21.5	Marshall Industries	520	5.2[d]	134.0	193	20.1	51.4
Collins Foods Intl	454	8.0	8.6	354	13.7	4.9	Guilford Mills	521	5.1	14.0	276	16.5	7.2
Minnesota Power & Lt	455	8.0	–14.0	853	2.7	3.8	Kansas Power & Light	522	5.0	0.0	277	16.5	2.9
Super Valu Stores	456	8.0	22.4	363	13.4	5.6	Commercial Metals	523	5.0	150.0	995	–3.1	29.4
UtiliCorp United	457	8.0	11.3	118	28.8	16.4	Huntington Bcshs	524	4.9	15.0	481	10.8	14.1
Barnes Group	458	7.9[c]	25.3	926	0.1	9.8	Standex International	525	4.9	–15.4	876	2.0	4.7
Hilton Hotels	459	7.8	47.0	732	5.6	11.5	Dover	526	4.9	39.0	523	9.9	23.6
Medtronic	460	7.8	27.6	723	5.7	34.5	Carolina Power & Lt	527	4.9	–41.4	692	6.5	7.8
Standard Shares	461	7.8	–34.5	564	9.0	16.7	Rohr Industries	528	4.9	20.9	845	3.1	36.7
Bell Atlantic	462	7.8[c]	6.3	589	8.5[c]	0.0	Wisconsin Public Svc	529	4.8	9.1	949	–0.6	3.2
Sears, Roebuck	463	7.8	–10.9	558	9.2	10.9	Dayton Hudson	530	4.8	–15.7	394	12.5	16.5
Nynex	464	7.8[c]	5.5	587	8.5[c]	4.9	Washington Gas Light	531	4.8	17.2	961	–1.2	–4.2
Ameritech	465	7.6[c]	13.0	790	4.5[c]	4.1	Midwest Energy	532	4.8	32.0	552	9.3	5.3
McGraw-Hill	466	7.6	20.1	636	7.6	6.5	Southwestern Bell	533	4.7[c]	–2.1	839	3.2[c]	7.1
Tyco Laboratories	467	7.6	157.5	377	13.0	53.7	Commerce Bcshs	534	4.7	25.5	698	6.4	2.8
PNC Financial	468	7.4	0.2	297	15.7	64.7	Coastal Corp	535	4.6	–23.7	759	5.0	13.2
TECO Energy	469	7.4	0.0	500	10.5	7.0	American Brands	536	4.5	38.4	772	4.9	17.2
Minn Mining & Mfg	470	7.3	24.3	659	7.1	13.2	Ohio Edison	537	4.4	–27.7	779	4.6	13.5
Prime Computer	471	7.3	–13.7	248	17.6	54.7	Airborne Freight	538	4.3	–38.0	274	16.6	20.2
Exxon	472	7.3	20.1	1028	–5.4	10.3	US West	539	4.3[c]	20.1	753	5.2[c]	5.4
Florida Natl Banks	473	7.2	54.3	314	15.0	13.8	No States Power	540	4.3	0.6	870	2.3	10.7
JC Penney	474	7.2	17.3	709	6.2	–2.9	Cooper Tire & Rubber	541	4.2	24.4	595	8.4	15.1
Moore Corp	475	7.0	40.0	787	4.5	13.0	Jerrico	542	4.2	–22.7	667	7.0	6.8
Tecumseh Products	476	7.0	8.8	781	4.6	20.0	Ruddick	543	4.2	26.0	327	14.6	13.6
Longs Drug Stores	477	7.0	34.7	535	9.7	9.4	Crestar Financial	544	4.1	17.6	382	12.9	10.2
Alltel	478	7.0	89.6	706	6.2	12.0	American Electric	545	4.1	–1.7	851	2.8	–2.0
Scana	479	7.0	–13.8	774	4.9	–5.4	Centel	546	4.1	36.9	801	4.1	–9.8
Emerson Electric	480	7.0	15.5	415	12.1	7.8	General Electric	547	4.1	19.8	601	8.3	–2.5
Uslico	481	7.0	–0.6	77	35.8	–4.8	Interco	548	4.1	7.5	830	3.5	–1.5
Wisconsin Energy	482	7.0	21.2	918	0.6	8.6	Commonwealth Ed	549	4.0	–28.3	707	6.2	–3.9
E-Systems	483	6.9	24.7	493	10.5	12.7	PHH Corp	550	3.9	–45.2	177	21.4	18.6
Central & So West	484	6.9	0.0	931	0.0	3.7	Brown-Forman	551	3.9	18.3	326	14.6	–3.8
Tucson Electric	485	6.9	3.3	682	6.7	19.0	Baxter International	552	3.9	25.0	89	33.6	11.2
Brunswick	486	6.9	30.4	194	20.0	20.6	Avery International	553	3.9	–16.5	338	14.2	10.3
NCNB	487	6.8	–2.9	223	19.1	16.6	Southmark	554	3.9	P-D	50	47.0[c]	36.1
BellSouth	488	6.8[c]	2.9	575	8.7[c]	9.0	Nalco Chemical	555	3.9	35.1	765	5.0	20.3
Peoples Energy	489	6.8	39.2	1006	–3.8	–4.9	Morton Thiokol	556	3.9	9.5	279	16.4	18.2
So N England Telecom	490	6.7	8.4	702	6.3	7.6	Consolidated Rail	557	3.8	11.5	967	–1.5	7.1
Mapco	491	6.7	76.3	1023	–5.2	17.8	Pentair	558	3.8	153.9	159	23.3	1.9
Continental Corp	492	6.7	–70.9	438	11.7	–2.1	Texas Utilities	559	3.7	–7.3	780	4.6	1.7
Louisville G&E	493	6.7	7.4	875	2.1	0.4	Allegheny Power	560	3.6	–5.8	877	1.9	16.7
National City	494	6.6[d]	17.4	253	17.3	10.8	Travelers	561	3.5	P-D	556	9.2	4.0
Fleet/Norstar Fin'l	495	6.5	–7.2	227	18.9	13.0	National Fuel Gas	562	3.5	10.7	1029	–5.5	4.3
Meredith	496	6.4	1.9	718	5.9	19.9	Delmarva Power & Lt	563	3.4	–11.1	861	2.5	11.1
Ametek	[illegible]	6.4	–13.6	627	7.8	–6.6	Petrie Stores	564	3.4	–44.5	226	18.9	–5.3
Piedmont Natural Gas	[illegible]	6.4	29.6	721	5.8	–5.1	Shaklee	565	3.3	32.0	940	–0.2	24.9
Std Commercial	[illegible]	6.3	–19.3	465	11.3	21.5	Consolidated Edison	566	3.2	–3.5	946	–0.5	0.0
EG&G	[illegible]	6.2	14.7	571	8.8	8.8	Super Rite Foods	567	3.2	70.9	151	23.9	10.4
Zenith National Ins	[illegible]	6.2	10.4	71	37.9	8.4	SCEcorp	568	3.2	27.3	748	5.3	13.2
AG Edwards	[illegible]	[illegible]	–46.3	331	14.5	–9.9	WPL Holdings	569	3.2	8.1	895	1.3	5.3
American Stores	[illegible]	[illegible]	[illegible]	303	15.5	9.4	Johnson Controls	570	3.1	28.6	224	19.0	15.8
Merrill Lynch	[illegible]	[illegible]	[illegible]	263	16.9	–5.7	Curtice Burns Foods	571	3.1	45.6	735	5.6	7.2
[illegible]son & Johnson	[illegible]	[illegible]	[illegible]	696	6.4	14.2	Illinois Power	572	3.0	–47.9	923	0.5	6.9
[illegible] Group	506	5.7	[illegible]	296	15.7	126.8	ITT	573	2.8	44.7	993	–3.0	11.2
[illegible]er	507	[illegible]	[illegible]	483	10.8	0.8	Boatmen's Bancshares	574	2.8	–1.0	96	32.7	3.8
[illegible]ee Natl	508	[illegible]	[illegible]	650	7.3	8.0	Tyler	575	2.7	105.9	836	3.3	–25.9
Wico[illegible]	509	5.[illegible]	[illegible]	929	0.1	7.7	Commonwealth En	576	2.7	–4.0	909	0.9	3.6
FPL Group	510	5.6	[illegible]	611	8.2	9.8	Orange & Rockland	577	2.7	10.9	969	–1.8	2.8
New England Elec[illegible]c	511	5.5	[illegible]	849	2.8	2.6	Southwestern Pub Svc	578	2.6	14.7	761	5.0	2.9
General Development	512	5.4	[illegible]	410	12.2	14.2	Kentucky Utilities	579	2.6	24.1	850	2.8	–0.3
Whirlpool	513	5.4	–	369	13.3	4.5	Mobil	580	2.5	14.5	1007	–3.9	6.5

D-D: Deficit to deficit. D-P: Deficit to profit. [illegible] to deficit. NA: Not available. NM: Not meaningful. c: Three-year growth. d: Four-year growth.

mpany	rank	Earnings per share 5-year average	Earnings per share latest 12 months	rank	Sales 5-year average	Sales latest 12 months	Company	rank	Earnings per share 5-year average	Earnings per share latest 12 months	rank	Sales 5-year average	Sales latest 12 months
·ific Telesis	581	2.4%[c]	6.6%	746	5.3%[c]	6.4%	Bindley Western Inds	647	–2.8%	–65.8%	243	17.8%	26.3%
:o Standard	582	2.3	28.7	626	7.8	5.5	Engelhard	648	–3.1	–24.1	834	3.4	–2.8
ık of New England	583	2.1	18.1	235	18.6	24.5	Utah Power & Light	649	–3.1	67.7	775	4.8	3.4
m Industries	584	2.0	9.8	859	2.6	1.0	MCA	650	–3.1	–15.6	421	12.1	6.8
›lic Service Colo	585	1.9	–4.4	917	0.7	1.7	Media General	651	–3.1	115.5	530	9.8	6.8
nstar Intl	586	1.8[d]	21.9	908	0.9	31.0	Equitable Resources	652	–3.1	–3.3	950	–0.7	–4.0
rolina Freight	587	1.7	–49.2	251	17.3	6.9	Occidental Petroleum	653	–3.2	90.3	991	–2.9	9.8
neer Hi-Bred Intl	588	1.6	14.8	440	11.7	4.2	Eastman Kodak	654	–3.8	98.2	799	4.1	25.1
nnison Mfg	589	1.6	–6.5	809	3.8	–1.2	Harris Corp	655	–3.9	–18.6	655	7.1	–3.5
it Executive	590	1.6	9.7	167	22.3	–15.4	Humana	656	–4.1	23.7	366	13.4	21.3
·ox	591	1.4	22.8	492	10.5	14.3	DPL	657	–4.4	–25.2	913	0.8	6.0
leman	592	1.3	36.2	494	10.5	12.1	Southeast Banking	658	–4.5	500.0+	683	6.6	11.6
on-Dixie Stores	593	1.3	7.9	740	5.4	2.5	Brown Group	659	–4.9	0.8	879	1.7	13.2
nsol Natural Gas	594	1.2	16.4	1045	–6.9	1.8	Briggs & Stratton	660	–5.0	21.3	760	5.0	18.6
iana National	595	1.2	39.1	459	11.3	11.7	Bassett Furniture Ind	661	–5.0	–20.4	505	10.4	0.3
epondent Insurance	596	1.2	–15.5	819	3.6	7.8	PaineWebber Group	662	–5.0	–65.0	262	17.0	–4.7
iesway	597	1.2	–53.6	310	15.2	13.8	Gulf States Utils	663	–5.1	–47.6	873	2.1	3.8
1	598	1.1	16.5	555	9.2	6.8	American Greetings	664	–5.2	–34.3	508	10.3	7.5
. Diego G&E	599	1.1	51.9	768	5.0	16.7	Sun Company	665	–5.3	–96.4	1079	–11.5	7.7
iversal Foods	600	1.1	19.1	658	7.1	1.6	Carlisle Cos	666	–5.4	27.7	711	6.2	7.4
ifiCorp	601	0.9	6.8	563	9.0	2.5	American President	667	–5.7	5.2	157	23.4	15.5
ion Electric	602	0.8	–13.6	541	9.7	4.8	Alaska Air Group	668	–5.8	110.4	163	23.0	20.0
ıdy	603	0.8	20.9	526	9.9	9.7	Arkla	669	–5.9	–11.3	1008	–3.9	60.5
(	604	0.6	–7.7	278	16.4	16.5	Scotty's	670	–6.2	–60.0	482	10.8	6.7
arson Lehman	605	0.4	NA	70	38.2	50.1	American Tel & Tel	671	–6.3[c]	500.0+	925	0.1[c]	2.8
ık of New York	606	0.4	106.0	642	7.4	14.3	AMR	672	–6.8[d]	72.5	486	10.7	22.4
:hester Telephone	607	0.4	–1.4	458	11.3	8.0	Diebold	673	–6.9	0.8	951	–0.7	5.3
gen Brunswig	608	0.3	117.6	131	26.5	3.3	Public Service NM	674	–7.0	P-D	343	14.1	11.5
:t Boston	609	0.2	–21.1	168	22.2	7.2	Montana Power	675	–7.1	30.0	656	7.1	10.8
coff-Sexton	610	0.2	41.3	102	31.6	8.4	Pacific G&E	676	–7.3	–4.0	864	2.5	2.1
iahoma G&E	611	0.2	33.6	831	3.5	0.4	National Medical	677	–7.3	124.4	209	19.6	12.9
⊃	612	0.1	253.8	579	8.6	–37.7	Middle South Utils	678	–7.4	–26.3	797	4.2	–0.1
·vron	613	0.0	–12.5	1021	–5.0	5.6	Philadelphia Elec	679	–7.6	5.6	795	4.3	0.0
ter Hawley Hale	614	0.0	D-P	860	2.6	–4.6	Long Island Lighting	680	–7.7	91.0	792	4.4	4.4
:rTAN	614	0.0	NA	710	6.2	19.4	Centerre Bancorp	681	–7.8	35.8	996	–3.2	4.3
ings Industries	615	–0.2	–16.8	320	14.8	11.5	Outboard Marine	682	–8.3	46.1	553	9.3	24.5
rrison	616	–0.3	35.3	546	9.5	15.5	First Bank System	683	–8.4	160.7	645	7.4	–2.0
ıterior Energy	617	–0.4	–27.7	802	4.1	–0.7	Kroger	684	–8.4	62.6	660	7.1	6.7
nsylvania P&L	618	–0.5	12.7	344	14.1	6.5	Roadway Services	685	–8.6	16.0	485	10.7	12.6
Multifoods	619	–0.5	–40.9	565	9.0	18.7	Amoco	686	–8.8	78.8	1052	–7.9	9.0
theast Utilities	620	–0.5	–17.8	887	1.5	8.6	NIKE	687	–8.9	200.0	743	5.4	58.5
a-Illinois G&E	621	–0.5	–8.1	922	0.5	–0.5	Southwest Airlines	688	–9.1	155.6	220	19.1	6.4
ional Western Life	622	–0.5	–29.9	82	34.9	–3.7	Greyhound	689	–9.2	–84.0	1049	–7.6	31.1
Cormick & Co	623	–0.6	5.0	570	8.8	10.6	Sundstrand	690	–9.4	P-D	519	10.0	3.6
corp	624	–0.8	–31.4	982	–2.4	–2.2	Tektronix	691	–9.4	P-D	823	3.6	1.6
thern Company	625	–0.8	7.8	635	7.6	3.4	Fay's Drug	692	–9.7	79.0	367	13.3	10.3
a Resources	626	–1.0	–25.1	1025	–5.2	–2.8	General Signal	693	–9.8	–60.3	936	–0.1	10.5
aacle West	627	–1.0	–30.4	773	4.9	8.2	Norfolk Southern	694	–10.3	357.3	736	5.5	7.4
way Food Town	628	–1.0	312.6	960	–1.1	–2.1	Gillette	695	–10.4	348.1	639	7.5	12.6
ıtral Ill Pub Svc	629	–1.0	24.3	966	–1.3	1.4	Federal-Mogul	696	–10.7	500.0+	633	7.6	14.6
Svc Enterprise	630	–1.1	46.8	865	2.4	–0.1	Savannah Foods	697	–10.8	6.8	374	13.1	10.7
quesne Light	631	–1.2	26.1	814	3.7	12.7	Lancaster Colony	698	–11.0	13.4	747	5.3	6.6
ıorola	632	–1.2	56.5	455	11.4	21.8	Litton Industries	699	–11.0	22.7	973	–2.0	10.1
ılph Coors	633	–1.3	–0.8	634	7.6	9.6	American Building	700	–11.3	58.1	406	12.3	9.9
ly Corp	634	–1.3	500.0+	1071	–10.7	36.8	Salomon	701	–11.5	–23.0	197	20.0	–11.5
oklyn Union Gas	635	–1.4	2.5	894	1.3	–2.7	Pacific Enterprises	702	–11.8	–1.8	791	4.4	9.4
e-Communications	636	–1.4	–90.6	72	37.4	50.7	Questar	703	–11.8	–62.1	964	–1.3	2.1
ndustries	637	–1.8	6.3	933	0.0	2.1	Chicago Pacific	704	–11.9	173.0	27	70.1	19.8
·oto	638	–1.9	–72.6	813	3.7	–1.0	EW Scripps	705	–12.0[d]	NA	456	11.4[d]	NA
tmarx	639	–1.9	13.1	796	4.3	9.0	Univar	706	–12.1	134.7	266	16.9	23.8
ning Cos	640	–2.1	–16.2	239	18.1	11.3	Gerber Products	707	–13.0	93.4	751	5.2	7.1
cinnati G&E	641	–2.1	–39.6	897	1.2	–0.9	Colgate-Palmolive	708	–13.4	415.4	874	2.1	–8.2
·ater	642	–2.1	120.1	616	8.1	22.4	Central Maine Power	709	–14.0	69.7	666	7.0	12.6
it Point-Pepperell	643	–2.2	29.4	534	9.8	26.3	Oxford Industries	710	–14.4	P-D	817	3.7	1.9
ssLand Savings FSB	644	–2.3[c]	–18.0	461	11.3	32.4	El Paso Electric	711	–14.6	–24.5	614	8.1	18.6
champs	645	–2.7	40.8	559	9.2	8.0	Procter & Gamble	712	–14.8	165.1	652	7.2	15.2
ıet Banking	646	–2.7	364.3	419	12.1	23.9	US Shoe	713	–15.1	–60.4	470	11.2	4.6

Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. NA: Not available. NM: Not meaningful. c: Three-year growth. d: Four-year growth.

WHO'S WHERE IN GROWTH

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
First Fidelity Bncp	714	–15.1%[d]	–4.0%	416	12.1%	16.0%
Bearings	715	–15.3	143.8	641	7.4	12.6
PSI Holdings	716	–15.3	15.7	717	5.9	–0.7
United Artists	717	–16.2	500.0+	250	17.5	28.9
Alexander's	718	–16.4	P-D	919	0.6	0.4
Contel	719	–16.6	–37.5	484	10.8	5.0
Manufacturers Natl	720	–16.7	–9.7	727	5.6	17.4
Oneok	721	–17.3	11.0	1083	–11.9	–2.7
Wells Fargo	722	–17.8	D-P	646	7.4	7.3
JP Morgan & Co	723	–18.2	500.0+	900	1.2	12.5
Air Prods & Chems	724	–18.4	37.8	697	6.4	13.9
NY State E&G	725	–18.6	D-P	618	8.0	–0.7
Dollar General	726	–18.7	28.0	287	16.0	–0.1
United Technologies	727	–19.1	300.8	811	3.7	4.0
Republic New York	728	–19.4	235.2	631	7.7	28.4
PHM Corp	729	–20.2	–87.9	439	11.7	–7.4
First Security	730	–20.5	151.0	943	–0.3	–3.0
Rochester G&E	731	–20.8	4.6	914	0.8	2.7
Wickes Cos	732	–21.5[d]	–94.1	591	8.4	–18.5
Avnet	733	–21.7	79.0	700	6.3	15.5
Unocal	734	–21.7	P-D	1026	–5.3	8.6
Bell Industries	735	–21.9	190.1	475	10.9	12.9
Blount	736	–22.7	–30.9	454	11.4	12.5
KN Energy	737	–22.9	500.0+	1060	–9.1	10.0
Portland General	738	–23.5	500.0+	668	7.0	–0.9
Church's Fried	739	–23.9	–56.0	948	–0.6	–2.2
Carpenter Technology	740	–29.2	426.7	872	2.2	21.8
Grow Group	741	–29.6	D-D	289	16.0	–18.6
CityFed Financial	742	–30.0	D-D	300	15.6	–12.2
Amoskeag	743	–30.2	P-D	205	19.7	9.1
Guy F Atkinson	744	–32.2	P-D	1004	–3.6	–1.5
Bank of Boston	745	–33.5	51.6	545	9.6	20.3
Riggs National	746	–34.6	79.3	815	3.7	15.8
Preston	747	–35.7	P-Z	258	17.2	21.2
Pennzoil	748	–36.3[d]	P-D	1030	–5.6	23.7
Foster Wheeler	749	–37.3	–71.8	1035	–5.8	–13.0
Mitchell Energy	750	–38.5	–66.7	1074	–11.2	3.8
Phillips Petroleum	751	–39.7	D-P	1057	–8.7	11.7
Universal Health	752	–40.3	P-Z	164	23.0	8.5
Texas Eastern	753	–42.7	76.2	1058	–8.9	–8.3
Niagara Mohawk Pow	754	–43.3	1.0	891	1.3	6.4
Bankers Trust NY	755	–51.2	D-P	769	4.9	17.1
Security Pacific	756	–55.0	116.9	471	11.1	13.1
AM International	757	–57.2[c]	P-D	442	11.6	–29.4
CenTrust Savings	758	–79.5[c]	D-P	108	30.7	28.0
Advanced Micro		NM	D-P	332	14.4	22.3
ADVO-System		NM	P-D	76	36.1	13.2
Alcan Aluminium		NM	148.3	670	7.0	27.5
Alexander & Alex		NM	2.1	576	8.7	1.7
Alleghany		NM	NA	13	132.7[d]	1.9
Allegheny Intl		NM	D-D	1097	–19.1	–20.8
Allen Group		NM	D-D	833	3.4	1.3
Allied Products		NM	P-D	202	19.8	12.8
Allied-Signal		NM	–13.3	531	9.8	5.9
Alcoa		NM	197.3	882	1.7	26.6
AMAX		NM	38.2	956	–0.8	33.3
Amerada Hess		NM	P-D	1090	–13.7	–2.3
America West Airlines		NM	D-D	33	64.0[c]	43.5
American Bankers		NM	D-P	154	23.6	18.7
American Capital		NM	P-D	44	52.9[c]	12.6
American Carriers		NM	P-D	608	8.3	50.2
American Hoist		NM	D-P	1032	–5.7	3.1
American Maize		NM	[illegible]	506	10.3	7.6
American Medical		NM	[illegible]	212	19.6	15.1
American Petrofina		NM	[illegible]	889	1.4	13.7
American First Bank		NM	[illegible]	924	0.4	4.9
American [illegible]		NM	[illegible]	544	9.6	11.8

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
Ampco-Pittsburgh		NM	D-D	866	2.4%	–19.7%
Apollo Computer		NM	–43.5%	17	88.3	23.6
Armco		NM	–63.6	1086	–12.4	13.4
Arrow Electronics		NM	D-D	838	3.3	64.7
Asarco		NM	39.1	999	–3.3	54.1
Ashland Oil		NM	54.1	1016	–4.7	19.3
Atlantic Financial		NM	D-P	121	28.2	14.9
Atlantic Richfield		NM	62.9	1075	–11.2	12.6
Avon Products		NM	P-D	979	–2.2	8.2
Baker Hughes		NM	D-P	1072	–10.9	20.4
Balfour MacLaine		NM	P-D	477	10.9	55.9
Bally Manufacturing		NM	–34.6	653	7.2	14.7
BankAmerica		NM	D-P	1037	–6.3	–5.4
Bear Stearns Cos		NM	NA	113	29.4	NA
Beneficial Corp		NM	D-P	1065	–9.8	2.0
Benj Franklin S&L		NM	NA	829	3.5[d]	11.8
WR Berkley		NM	13.7	103	31.3	3.1
Bethlehem Steel		NM	92.3	992	–3.0	20.8
Beverly Enterprises		NM	D-D	179	21.2	–5.3
Black & Decker		NM	73.7	426	12.0	17.9
BMA Corp		NM	–75.4	617	8.1	15.1
Borman's		NM	P-D	910	0.9	–4.8
Budget Rent a Car		NM	NA	125	27.8	23.9
Burlington Northern		NM	–65.1	490	10.6	–19.8
Businessland		NM	88.9	5	163.1[d]	48.1
Butler Manufacturing		NM	153.8	507	10.3	4.6
Cabot		NM	59.9	1003	–3.6	17.7
Caesars World		NM	72.4	694	6.4	4.0
Cameron Iron Works		NM	D-D	1095	–14.7	17.0
Carson Pirie Scott		NM	D-P	657	7.1	27.2
Castle & Cooke		NM	278.6	911	0.9[c]	25.5
Caterpillar		NM	500.0+	708	6.2	28.2
CBI Industries		NM	215.4	397	12.4[d]	1.3
Central Hudson G&E		NM	–57.7	965	–1.3	3.0
Champion Intl		NM	14.0	816	3.7	10.1
Champion Spark Plug		NM	–24.1	928	0.1	–3.6
Charter		NM	79.4	1106	–29.4	–40.6
Chase Manhattan		NM	D-P	883	1.6	13.9
Chemical Banking		NM	D-P	825	3.6	22.7
Cigna		NM	–38.7	597	8.4	4.1
Cincinnati Milacron		NM	P-D	749	5.2	4.2
Citicorp		NM	D-D	537	9.7	13.8
Clark Equipment		NM	D-P	689	6.5	22.1
CMS Energy		NM	46.0	912	0.8	0.8
CNW		NM	21.9	826	3.5	5.9
Coachmen Industries		NM	64.7	906	1.0	10.4
Coast S&L Assoc		NM	–7.0	249	17.5	29.2
Columbia Gas System		NM	–13.9	1080	–11.6	12.8
Combustion Eng		NM	–65.0	1014	–4.5	19.8
Commercial Credit		NM	500.0+	916	0.7	–3.5
Comstock Group		NM	D-D	317	15.0	4.6
Continental Illinois		NM	D-D	1096	–14.9	8.7
Control Data		NM	D-P	939	–0.2	8.4
Copperweld		NM	500.0+	1078	–11.4	31.6
Costco Wholesale		NM	228.6	12	135.6[c]	44.9
Craig		NM	36.6	242	17.9	9.0
Cross & Trecker		NM	D-P	408	12.3	1.4
Crown Central Pet		NM	D-P	1069	–10.6	12.3
CRS Sirrine		NM	D-P	128	26.9	64.5
CSX		NM	–67.0	622	7.9	2.1
Cummins Engine		NM	P-D	453	11.4	20.5
CVN Cos		NM	D-P	43	53.6	253.0
Cyprus Minerals		NM	441.8	680	6.7	50.7
Dairy Mart		NM	D-P	21	73.3	6.4
Dallas Corp		NM	240.9	432	11.9	4.5
Data General		NM	D-D	474	10.9	7.1
Datapoint		NM	D-D	1082	–11.9	6.0

D-D Deficit to deficit D-P Deficit to profit P-D Profit to deficit P-Z Profit to zero NA Not available NM Not meaningful c: Three-year growth d: Four-year growth

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WHO'S WHERE IN GROWTH

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
Deere	NM	D-P		989	–2.8%	43.1%
Delta Air Lines	NM	22.6%		624	7.9	22.5
Delta Woodside Inds	NM	11.3		79	35.2	16.0
Di Giorgio	NM	D-P		896	1.3	2.2
Diamond Shamrock	NM	–33.3		1054	–8.1[d]	10.7
Dibrell Brothers	NM	D-P		1011	4.2	64.0
Dime Savings Bank	NM	NA		514	10.1	22.1
Diversified Energies	NM	34.0		980	–2.2	13.4
Dravo	NM	D-D		1099	20.7	–28.1
Dresser Industries	NM	D-P		1000	–3.3	21.6
DWG	NM	44.6		69	38.5	–1.0
Eagle-Picher Inds	NM	7.3		756	5.2	14.3
Eastern Gas & Fuel	NM	223.4		1063	–9.4	–13.5
Edison Bros Stores	NM	P-D		752	5.2	–0.8
Emerson Radio	NM	D-D		42	54.0	–12.7
Emery Air Freight	NM	D-D		339	14.2	19.4
Emhart	NM	18.9		651	7.2	13.9
Empire of America	NM	D-D		284	16.1	8.0
Enron	NM	–84.7		520	10.0	–5.2
Enserch	NM	P-D		1039	–6.4	0.6
Fairchild Industries	NM	D-P		1093	–14.4	5.3
Federal Express	NM	D-P		91	33.3	20.5
Federal Natl Mortgage	NM	265.1		662	7.1	8.5
Fieldcrest Cannon	NM	P-D		161	23.1	0.3
Fin Cp Santa Barbara	NM	–68.9		292	15.9	4.9
Fireman's Fund	NM	–23.5		742	5.4	–11.2
First Chicago	NM	D-P		927	0.1	18.7
First Interstate Bncp	NM	D-D		841	3.2	11.4
First Pennsylvania	NM	D-P		985	–2.6	9.1
First Wisconsin	NM	D-P		757	5.2	12.2
Fischbach	NM	D-D		974	–2.0	–21.1
Florida Federal S&L	NM	D-D		435	11.9	–8.7
Fluor	NM	D-P		1064	–9.7	2.0
LB Foster	NM	D-P		998	–3.2	–13.4
Foxboro	NM	D-D		976	–2.1	0.3
GAF	NM	10.8		764	5.0	16.7
GATX	NM	34.2		1087	–12.5	5.0
General Dynamics	NM	500.0+		607	8.3	1.0
General Instrument	NM	D-P		920	0.6	17.1
Genesco	NM	–44.0		1053	–8.0	–4.1
Getty Petroleum	NM	246.2		38	59.6	7.7
Gibraltar Financial	NM	D-D		267	16.8	44.3
BF Goodrich	NM	120.1		1041	–6.6	13.1
Gordon Jewelry	NM	D-D		994	–3.1	0.4
WR Grace	NM	D-P		1059	–9.1	27.4
Great American Mgmt	NM	500.0+		24	71.6	65.5
Grossman's	NM	–14.3		1018	–4.8	4.8
Grumman	NM	–75.5		414	12.1	6.5
GTE	NM	17.0		755	5.2	5.8
Gulf & Western	NM	30.4		1055	–8.2	19.7
Halliburton	NM	466.7		1091	–14.1	39.5
Handy & Harman	NM	D-P		869	2.3	10.4
MA Hanna	NM	D-P		269	16.8	273.8
Harnischfeger Inds	NM	500.0+		199	19.9	26.3
Home Group	NM	–43.3		988	–2.8	17.8
Honeywell	NM	D-P		862	2.5	14.0
Horn & Hardart	NM	P-D		502	10.4	7.9
Hospital Corp	NM	D-P		468	11.2	–18.9
IC Industries	NM	53.0		878	1.8	–9.2
IMC Fertilizer Group	NM	53.7		975	–2.0[d]	21.3
Imperial Corp of Am	NM	23.7		282	16.2	4.6
Inco	NM	500.0+		644	7.4	78.7
Ingersoll-Rand	NM	38.6		892	1.3	10.3
Inland Steel Inds	NM	101.9		847	3.1	18.0
Inspiration Resources	NM	D-P		462	11.3	16.7
Integrated Resources	NM	33.8		90	33.5	28.6
Intel	NM	52.4		430	11.9	60.9

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
Intermark	NM	381.3%		100	31.9%	21.4%
Intl Minerals & Chem	NM	197.4		959	–1.0	–26.6
Irving Bank	NM	500.0+		944	–0.4	12.2
Jacobs Engineering	NM	83.3		957	–0.9	136.5
Earle M Jorgensen	NM	D-P		770	4.9	42.4
Kansas City P&L	NM	D-P		664	7.1	4.9
Kansas City Southern	NM	D-P		738	5.5	2.4
Kansas Gas & Elec	NM	500.0+		628	7.7	0.5
Kennametal	NM	35.7		899	1.2	20.2
Kerr Glass Mfg	NM	P-D		1089	–12.8	9.4
Kerr-McGee	NM	18.9		1051	–7.9	5.4
Lafarge	NM	41.0		739	5.5	12.6
Leslie Fay Cos	NM	39.3		305	15.4	10.5
Lone Star Industries	NM	–70.7		984	–2.6	–39.3
Lone Star Tech	NM	P-D		1067	–10.3	105.9
Lorimar Telepictures	NM	D-D		137	25.7	–15.5
Louisiana Land	NM	D-D		1061	–9.4	–1.1
LTV	NM	D-D		443	11.6	1.7
Lukens	NM	104.8		750	5.2	22.9
LVI Group	NM	P-D		16	99.7	2.0
M/A-Com	NM	D-P		1017	–4.7	–2.7
Mack Trucks	NM	–74.6		592	8.4	10.2
MAI Basic Four	NM	6.6		803	4.1	31.1
Mfrs Hanover	NM	D-P		881	1.7	8.1
Manville	NM	14.5		840	3.2	6.7
Martin Marietta	NM	70.7		625	7.8	8.6
Mattel	NM	D-D		905	1.0	–11.5
Maxicare Health	NM	D-D		26	70.6	28.8
McDermott Intl	NM	D-D		1033	–5.8	–18.3
MCI Communications	NM	D-P		112	29.6	24.1
MCorp	NM	D-D		356	13.6	–7.1
Medco Containment	NM	112.3		28	69.4	58.7
Mellon Bank	NM	D-D		640	7.5	–1.6
Mercantile Bancorp	NM	D-P		810	3.8	2.4
Meritor Financial	NM	D-D		330	14.5	–6.0
MGM/UA Commun	NM	D-D		945	–0.5	57.8
Michigan Consolidated	NM	–5.0		1040	–6.5	–4.9
Michigan National	NM	34.0		855	2.7	16.7
Monsanto	NM	54.8		827	3.5	12.2
Morgan Stanley	NM	21.0		75	36.1	19.9
Morrison-Knudsen	NM	D-D		1001	–3.5	1.5
Multimedia	NM	278.0		404	12.3	8.4
Munford	NM	D-D		782	4.5	–10.3
Murphy Oil	NM	D-D		1085	–12.4	6.5
Natl Convenience	NM	D-P		598	8.4	13.8
Natl Semiconductor	NM	D-P		525	9.9	38.1
National-Standard	NM	D-P		888	1.4	11.1
Navistar Intl	NM	500.0+		1012	–4.2	14.5
Newmont Mining	NM	–59.9		1066	–9.9	0.2
Nicor	NM	32.3		1050	–7.8	–2.7
Nipsco Industries	NM	60.9		1010	–4.2	2.3
NL Industries	NM	D-D		1047	–7.1	13.8
Nortek	NM	P-D		63	40.6	11.1
Northeast Savings FA	NM	P-D		240	18.0	19.1
Northern Trust	NM	D-P		907	1.0	18.7
Norton	NM	D-P		941	–0.2	19.2
Norwest	NM	D-P		885	1.6	2.5
Ogden	NM	–51.9		1098	–19.9	18.1
Olin	NM	43.4		952	–0.7	19.3
Omnicom Group	NM	45.8		532	9.8[d]	13.8
Orion Capital	NM	D-P		345	14.1	10.8
Orion Pictures	NM	–19.7		143	25.1	17.1
PACE Membership	NM	500.0+		3	181.3[d]	51.3
Pacific Resources	NM	420.0		1062	–9.4	–1.8
Pan Am	NM	D-D		983	–2.5	15.4
Panhandle Eastern	NM	D-D		1081	–11.8	–21.9
Penn Central	NM	–31.7		1077	–11.3	–7.8

D-D: Deficit to deficit D-P: Deficit [illegible] P-D: Profit to deficit NA: Not available NM: Not meaningful c: Three-year growth d: Four-year growth

npany	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
n Traffic	NM	NM	NA	777	4.7%	8.7%
nwalt	NM	NM	12.9%	818	3.7	–5.4
ni	NM	NM	95.1	1015	–4.5	15.4
cin-Elmer	NM	NM	D-P	712	6.1	–7.6
y Drug Stores	NM	NM	D-D	132	26.4	–3.0
lps Dodge	NM	NM	464.0	701	6.3	63.1
stm	NM	NM	P-D	1056	–8.4	24.1
e & Talbot	NM	NM	4.1	599	8.4	19.3
nark Intl	NM	NM	D-P	788	4.5	11.4
nier Bancorp	NM	NM	D-D	412	12.2	–13.7
Group	NM	NM	23.2	890	1.3	–38.4
lic Service NH	NM	NM	P-D	785	4.5	14.3
ıker State	NM	NM	D-P	962	–1.2	–5.4
nolds Metals	NM	NM	87.3	720	5.8	31.4
Robertson	NM	NM	D-D	1020	–5.0	–16.6
Robins	NM	NM	P-D	420	12.1	11.5
s Stores	NM	NM	D-P	31	64.6[d]	8.5
aul Cos	NM	NM	4.0	528	9.9	3.8
ta Fe Southern	NM	NM	P-D	970	–1.9	–31.4
lumberger	NM	NM	D-P	1036	–5.9	17.0
ntific-Atlanta	NM	NM	13.3	554	9.3	–2.1
ctive Insurance	NM	NM	3.3	538	9.7	15.4
rice Merchandise	NM	NM	D-P	217	19.3	9.6
Smith	NM	NM	–38.2	734	5.6	2.5
th International	NM	NM	D-P	1101	–21.8	19.0
ıı	NM	NM	D-P	1084	–12.3	–6.5
Line	NM	NM	D-P	176	21.4	–4.5
ıgue Technologies	NM	NM	D-P	902	1.1	12.2
IC	NM	NM	–82.0	1043	–6.6	8.4
ıdard Fedl Bank	NM	NM	NA	41	54.5	6.3
esman Group	NM	NM	–95.2	104	31.2	33.4
vart & Stevenson	NM	NM	152.8	947	–0.6	42.3
ıe Container	NM	NM	110.8	49	47.1	27.0
age Technology	NM	NM	–50.0	1048	–7.5	10.6
aru of America	NM	NM	P-D	301	15.6	–11.8
ey Industries	NM	NM	D-P	930	0.1	21.1
Financial	NM	NM	P-D	380	12.9	–0.8
neco	NM	NM	D-P	934	–0.1	–5.8
ɔro Petroleum	NM	NM	D-D	1092	–14.1	–14.5
ɜco	NM	NM	P-D	1038	–6.4	7.2
as Air	NM	NM	D-D	55	43.9	5.5
as American Bcsh	NM	NM	D-D	921	0.5	–8.5
as Industries	NM	NM	D-P	241	18.0	10.2
as Instruments	NM	NM	25.9	806	4.0	13.8
m Apple Valley	NM	NM	D-P	954	–0.8	–1.7
Communications	NM	NM	D-D	832	3.5	–1.5
r International	NM	NM	18.6	997	–3.2	13.7
ken	NM	NM	D-P	812	3.7	30.5
d Shipyards	NM	NM	D-D	1094	–14.4	8.2
ıu	NM	NM	D-P	1103	–22.8	18.3
ısco Energy	NM	NM	P-D	987	–2.8	–6.4
ngle Industries	NM	NM	P-D	46	51.5[c]	500.0+
ity Industries	NM	NM	408.7	703	6.3	44.2
V	NM	NM	20.6	771	4.9	5.7
ıer Corp	NM	NM	D-P	648	7.3	13.5
ıer Broadcasting	NM	NM	D-D	98	32.3	26.0
	NM	NM	500.0+	512	10.2	3.8
	NM	NM	31.2	1068	–10.3	0.8
	NM	NM	2.8	364	13.4	–18.1
ɔn Carbide	NM	NM	180.4	1044	–6.8	20.5
ɔn Pacific	NM	NM	4.6	968	–1.7	16.4
ɔn Texas Petrol	NM	NM	D-P	1073	–11.0	–0.9
sys	NM	NM	500.0+	231	18.7	4.0
ed Banks of Colo	NM	NM	D-P	733	5.6	6.7
ed Financial	NM	NM	D-D	140	25.4	–21.2
ed HealthCare	NM	NM	D-D	6	163.0	17.3
ed Illuminating	NM	NM	D-P	868	2.3	4.9

Company	Earnings per share rank	5-year average	latest 12 months	Sales rank	5-year average	latest 12 months
United Merchants	NM	NM	D-D	509	10.3%	–14.4%
US Home	NM	NM	P-D	1024	–5.2	–8.7
United Telecom	NM	NM	D-P	758	5.1	6.3
UNUM Corp	NM	NM	NA	452	11.4	2.2
USF&G	NM	NM	13.9%	244	17.7	17.6
USLife	NM	NM	–9.6	691	6.5	2.6
USX	NM	NM	D-P	1027	–5.4	26.4
Valero Energy	NM	NM	P-D	1088	–12.6	–14.0
Valley National	NM	NM	88.6	681	6.7	5.3
Valmont Industries	NM	NM	72.1	178	21.3	58.4
Varian Associates	NM	NM	29.6	678	6.7	19.1
Varity Corp	NM	NM	D-P	977	–2.2	38.7
Vista Chemical	NM	NM	D-P	762	5.0	28.3
Volt Info Sciences	NM	NM	P-D	527	9.9	6.4
Wang Laboratories	NM	NM	D-P	219	19.3	5.7
Warner Commun	NM	NM	44.6	1002	–3.5	26.1
Warner-Lambert	NM	NM	20.6	903	1.0	12.8
Washington Mutual	NM	NM	–57.1	323	14.7	7.0
Washington National	NM	NM	P-D	1005	–3.8	18.8
Wendy's Intl	NM	NM	500.0+	387	12.8	2.0
Western Digital	NM	NM	–16.8	23	72.1	70.9
Western Union	NM	NM	D-D	1019	–4.9	6.8
Westmoreland Coal	NM	NM	P-D	915	0.7	–6.9
Wheeling-Pittsburgh	NM	NM	D-P	783	4.5	8.6
Whittaker	NM	NM	–6.6	1105	–27.5	13.8
Williams Cos	NM	NM	D-P	955	–0.8	4.9
Wilson Foods	NM	NM	62.5	1070	–10.6	–1.8
Wyman-Gordon	NM	NM	D-P	1046	–7.1	–19.4
York International	NM	NM	NA	572	8.8	34.0
Zenith Electronics	NM	NM	D-D	391	12.6	11.3
Allegheny Ludlum	NA	NA	NA	714	6.1	41.2
Allis-Chalmers	NA	NA	D-D	1102	–22.3	–19.4
Anchor Savings Bank	NA	NA	NA	156	23.5	4.9
Aristech Chemical	NA	NA	160.2	719	5.8	22.9
Atari	NA	NA	–19.4		NA	147.6
Avondale Industries	NA	NA	NA	522	9.9[d]	NA
Cannon Group	NA	NA	NA		NA	NA
Commercial Federal	NA	NA	–92.0	196	20.0	35.1
Cyclops Industries	NA	NA	NA	489	10.6[d]	NA
Finevest Foods	NA	NA	–15.8		NA	31.2
Foodmaker	NA	NA	20.0	835	3.4	39.0
Formica	NA	NA	149.5	647	7.4	6.7
Fruehauf	NA	NA	NA		NA	NA
Fruit of the Loom	NA	NA	107.7	513	10.2	19.3
Gaylord Container	NA	NA	NA		NA	55.9
Georgia Gulf	NA	NA	164.1	466	11.2	50.5
Goldome	NA	NA	NA	348	13.9	1.1
Henley Group	NA	NA	D-D	107	31.0	–19.8
Henley Manufacturing	NA	NA	NA	822	3.6	3.5
Hills Dept Stores	NA	NA	–75.6	794	4.3	13.8
Home Shopping	NA	NA	–36.4		NA	25.4
IBP	NA	NA	26.6	663	7.1	17.2
Ideal Basic Inds	NA	NA	D-D	1076	–11.2	–1.7
Itel	NA	NA	D-P	74	36.2	54.2
Magma Copper	NA	NA	NA	413	12.1	30.7
Maxus Energy	NA	NA	D-D	1104	–23.5[c]	–34.2
National Intergroup	NA	NA	D-D	754	5.2	–32.3
Neiman Marcus Group	NA	NA	NA	1107	–84.4	NA
People's Bank	NA	NA	NA	609	8.2[d]	7.1
Rexene	NA	NA	NA	942	–0.3[d]	NA
Richfood Holding	NA	NA	NA	690	6.5	15.7
Savin	NA	NA	P-D	986	–2.8	3.2
Charles Schwab	NA	NA	NA	56	43.5	–0.6
Sterling Chemicals	NA	NA	212.3		NA	69.2
Talman Home Federal	NA	NA	NA	1042	–6.6	0.4
Viacom	NA	NA	NA	92	33.2	17.9
Vons Cos	NA	NA	D-D	679	6.7	10.4

Deficit to deficit. D-P: Deficit to profit. P-D: Profit to deficit. NA: Not available. NM: Not meaningful. c: Three-year growth. d: Four-year growth.

A GROWING SUCCESS

By Dick Parker

The people of Gwinnett County, Georgia, like to say they are "just a little above Atlanta." Living and working a few miles north of the commercial and transportation hub of the South, they enjoy all the opportunities the city offers: its international airport, world renowned symphony and professional sports.

At the same time, Gwinnett County has attained a large measure of independence from Atlanta. Once considered a bedroom community, now less than 20% of the county's working population make the half-hour commute to the city. Instead, they work at more than 150,000 jobs—many of them in high technology fields—in their home county.

Four of the county's five largest private employers, are high tech firms: AT&T Advanced Technologies, Scientific Atlanta, Rockwell International and Hayes Microcomputer Products.

The high tech explosion began in Gwinnett County nearly two decades ago. Numerous factors, including natural beauty, a sound infrastructure and the proximity of three major research universities, combined to help produce the technology explosion.

A group of Georgia Institute of Technology alumni started the boom when they founded Technology Park/Atlanta in 1971. The group's goals were to halt the technological "brain drain" from Georgia and to develop a community of scientific research and technical organizations withi the state. The group acquired 125 acres in Gwinne County and created a park-like setting to attract firm Technology Park's development philosophy, draw from the writing of famous landscape architect Frederic Law Olmsted, set the standard for the county as whole: "There is no doubt that the health, strength an earning capacity of the people is increased b a park."

Regional, national and international con panies have headquarters Technology Par with its rolling hil covered with pin and hard-wood fo ests. Much more tha a working enviro ment, the park ofte draws families fro nearby neighborhoo for evening strol on the jogging trai around quiet lake The families com from Peachtre Corners, a 2,00 acre planne community manicured law and $300,000 $1 million home Technology Park/Atlan president Charles R. Brow said the atmosphere created b Peachtree Corners, The Par and by Gwinnett County is cruci to the companies' success. "The hig tech industry is very people-oriented," h said, "so these companies must be locate where people want to live. The high tech boo was born in California and Boston, and it grew u

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Technology Park/Atlanta heralded a new era, establishing a bold and innovative redefinition of the ideal corporate environment. Situated within the ideal community–Peachtree Corners in Gwinnett County–our 600-acre office park has become the nucleus of the metro area's techno-industries.

Ahead of its time even now, Technology Park/Atlanta's multi-faceted sports and corporate fitness programs reflect a total dedication to promoting *and* maintaining corporate well-being.

For when the human spirit is nurtured, corporate achievement knows no limits. It's no wonder that companies like Hayes Microcomputer, G.E., Unisys, NCR, Scientific-Atlanta and so many others have let *their* creativity, productivity and morale take flight. All under the wing of the master-planner: Technology Park/Atlanta, Inc.

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Photo courtesy of Gwinnett Daily News

around the space program in Texas and Florida. Now it's maturing in places like Gwinnett County—places that relate to people."

"The initial concept of Technology Park was to show the high tech industry that it could be successful in this geographical region," Brown added. That success is evident. Technology Park has grown to 600 acres, with 70 firms employing more than 4,500 people. Other high technology firms have located throughout Gwinnett County.

Gwinnett County's maturation as a high tech center is based, in large measure, on its proximity to Georgia Tech, Emory University and the University of Georgia. Those three universities did more than $250 million worth of research in 1987, a figure comparable to the Research Triangle in North Carolina. "All three universities have aggressive presidents," Brown said. "Their professors and students are available for research and development. Plus, their libraries and other facilities are used by high tech employees taking classes or working on projects."

Charles R. Brown—President, Technology Park/Atlanta

Dennis Hayes, president of Hayes Microcomputer Products, Inc. concurs regarding the importance of the university community. He said, "Our relationship with Georgia Tech has developed tremendously over the past four or five years."

The world's largest supplier of computer modems, Hayes' research has prepared for the most significant change in the 100 year history of telecommunications—digital transmission. "When the phone network changes, modems will change." Hayes said. "We must continue to give computers the ability to send information through telephone lines." Hayes is a leader in Gwinnett County.

Gwinnett County's technology boom, has attracted thousands of people. It has been the nation's fastest growing major county in this decade, nearly doubling in population, from 166,000 to more than 300,000 residents. By the year 2010, the Atlanta Regional Commission projects 721,000 people will call Gwinnett home.

Those people demand services, and they have shown their willingness to pay for them. They have passed nine bond issues in the past 20 years for school expansions. They approved a 1% sales tax hike to pay for a new criminal justice center, a civic and convention center and new roads. Matching state funds mean the county has more than $400 million worth of road construction planne or in progress.

The Atlanta Gas Light Compan the state's largest energy provider, i also responding by extending servic to new subdivisions and office park Clayton Preble is the manager c Atlanta Gas Light's Gwinnett offic He underscored the County's ex panding needs. "We're adding 500 customers a year and our projec tions are for sustained, high qualit growth."

Combined with hospital and ai port expansions, Gwinnett has mor than $1 billion worth of infrastruc ture improvements under way, an still the county has one of the lowes ad valorem tax in metropolitan A lanta. The public and private sector have worked together to deliver nec essary services.

"One of the attributes of Gwinne that has contributed to our success ful growth rate is the partnership tha has been forged and nurtured be tween the business/developmen community and our governmenta agencies at all levels." says Jac Sawyer, president of the Gwinnet Chamber of Commerce. "It is a con cept that is often talked about but i Gwinnett it has worked and worke well."

A $25 million expansion of pr vately-owned Briscoe Field, for ex ample, will add a 6,000-foot runwa in the heart of the county. Corporat executives will be able to avoid th bustle of Atlanta's Hartsfield Interna tional Airport.

While high technology was th spark, the fire under Gwinnet County has been fueled by the ex panding retail sector. The focus o the retail boom is Gwinnett Plac Mall, a 1 million-square-foot shop ping center that opened in 1984. I the center of the county just of Interstate 85, Gwinnett Place is in th nation's top 5% in annual sales pe square foot.

Mall developer Scott Hudgens ha the foresight to build an extensiv network of frontage roads aroun the mall; therefore, peripheral busi nesses have also flourished. Fou restaurant franchises in the mal vicinity, T.J. Appleby's, Longhor Steaks, Chili's and Skeeters, are th

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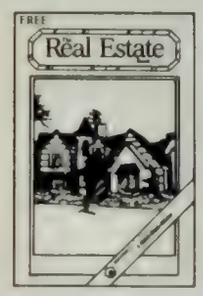

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p grossing restaurants in their spective companies. An auto mall, ith half a dozen dealerships and veral retail outlets, also has opened ıce 1984. The new establishments lped the county more than dou- e its retail sales between 1982 and 87, to $1.5 billion annually.

A 17-story, 300-room Marriott otel opened in 1986. Smaller hotels ve quickly followed. Future devel- ment around the mall will prob- ly be high-density office space. id-size Class A office buildings have en and fast-paced leasing has led even more construction. By mid- 88, the county had nearly 5 mil- n square feet of office space.

Mr. Scott Ferguson, Gwinnett unty Commissioner is quick to int out that Gwinnett County resi- nts don't just go to the office and en to the mall. They're also invest- g in the cultural and recreational ture of their homes. They've agreed pay for a major expansion of their rary system and for more land for rks. After all, recreational oppor- nities helped draw many of them Gwinnett in the first place.

Lake Lanier, at Gwinnett's north- n tip is a sailor's delight. The ,000 acre lake is the most popular all Army Corps of Engineers lakes tionwide. The Chattahoochee ver, running 11 miles along the unty's western border, offers some the South's best trout fishing. At winnett's eastern corner is the 200-acre Stone Mountain Park ith activities for the whole family.

Lamar Hunt saw Gwinnett's tential 15 years ago and built the CT Peachtree World of Tennis in achtree Corners. The club has en the site of several professional urnaments. In 1990 it will host ayers from 42 countries for the deration Cup, the women's equiva- nt of the Davis Cup. On a day-to- y basis, the 650 families who are embers enjoy 19 outdoor and eight door courts.

Golfer Jack Nicklaus was also ex- ed by the area. His development mpany built The Country Club of e South, a golf community with mes in the $1 million-plus range, st across the Chattahoochee River.

The county's biggest attractions are family-oriented because Gwinnett's people are family-oriented. 73% of the county's adults are married, according to a survey commissioned by The Gwinnett Daily News, and 80% of them own their own homes. "I see more baby strollers in Gwinnett County than in the whole rest of the state," said shopping mall developer Mark Hudgens.

Gwinnett's families are young, affluent and intelligent. 73% of Gwinnett County adults are between the ages of 18 and 44, according to The Daily News survey; 76% of them have household incomes of more than $25,000, and 60% of them attended or graduated from college.

These are precisely the people newspapers want as readers, which is why The New York Times Co. bought The Gwinnett Daily News

Tom Jones—Publisher, Gwinnett Daily News

last year. The company is building a $40 million facility just off Interstate 85 for its expanded press facilities.

The Atlanta Journal/Constitution also saw the potential in Gwinnett County when it built its suburban printing facility there three years ago. The paper has expanded its editorial staff in the county to more than 20, and offers a special Gwinnett County Extra section seven days a week.

John Schwab, Gwinnett Chamber of Commerce chairman and manager of the WCT Peachtree World of Tennis, said companies and people continue to flock to the county. "We have the Georgia and Florida beaches nearby, the mountains, a beautiful lake, the convenience and opportunities Atlanta offers, plus a family atmosphere," he said. "It's everything anybody could want."

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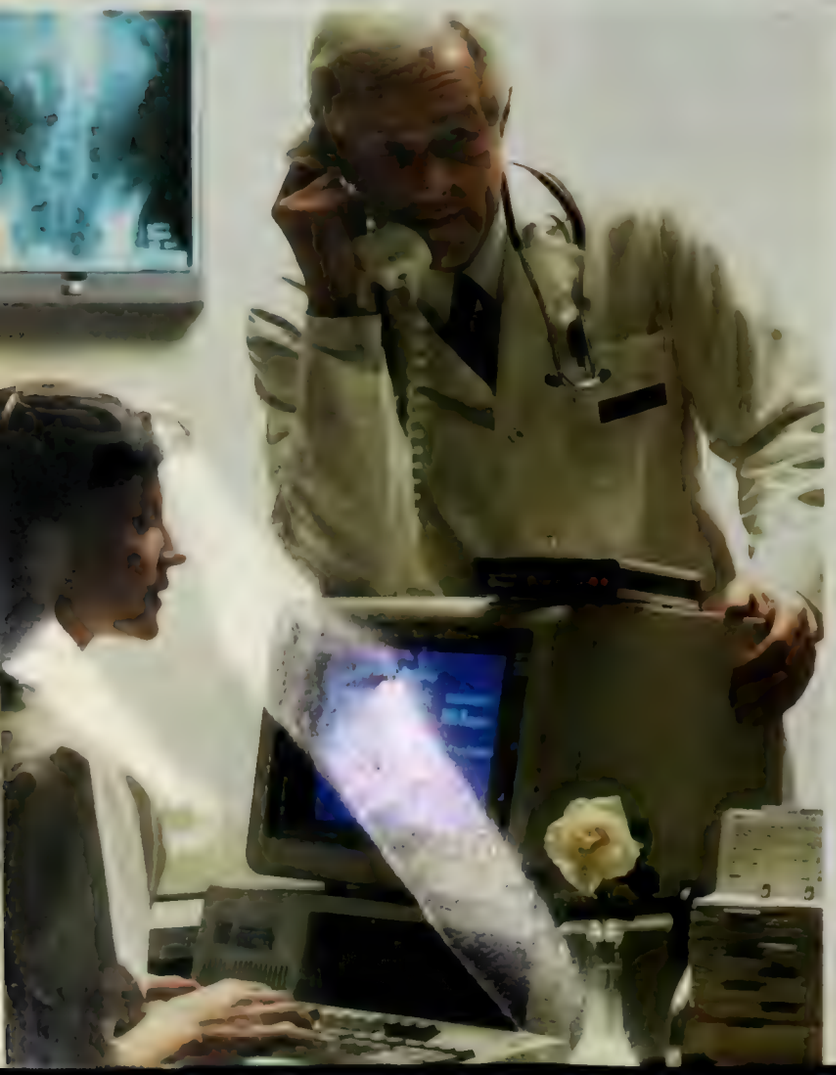

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Whether your communication needs are PC-to-PC, PC-to-Host, or PC-to-Network, we have the modem that will best address the specific tasks you need completed.

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We've also created peripheral and enhancement products designed to expand your system and improve its overall performance.

The sum of these products is a company that provides users total solutions to all their communication problems. Using ordinary dial-up phone lines.

So while it's not true that one modem is right for everybody, it may very well be true that one modem maker is.

or your nearest Hayes dealer, call 800-635-1225. Hayes Microcomputer Products, Inc., P.O. Box 105203, Atlanta, GA 30348. Hayes.

GWINNETT COUNTY
A GROWING SUCCESS

HAYES MICROCOMPUTER PRODUCTS

Dennis Hayes, founder of the world's largest supplier of computer modems, believes cultural opportunities are crucial to Gwinnett County's success in attracting quality people. He also understands the responsibility businesses have in creating those opportunities.

That's why Hayes Microcomputer Products, Inc., is a major supporter of the Grammy Award-winning Atlanta Symphony Orchestra. Hayes also sponsored performances of Swan Lake by La Scala Ballet, and helped create a local Shakespeare Festival.

"We've become a major metropolitan, cosmopolitan community," Hayes said. "The whole region is an important part of the global community. We're to the point where we offer all the cultural amenities, as well as educational opportunities."

In addition to his support of the arts, Hayes is helping in the creation of the Museum of Science and Technology, also known as SCITREK, a multimillion dollar high technology museum. Hayes believes SCITREK will be an important stimulus for students to explore the sciences.

"SCITREK can awaken the interests of young people in math and science," Hayes said.

Dennis Hayes—President, Hayes Microcomputer Products, Inc.

EDUCATION

Nothing excites parents in Gwinnett County more than schools. Their commitment of time and money to education consistently leads their children to high achievement.

Last year Gwinnett County graduates earned almost $6 million in college scholarships. 70% of the seniors advanced to college or other post-secondary training. Twelve of those were National Merit Scholarship finalists, and 16 were semi-finalists. While students earned individual honors, six county schools have been named National Schools of Excellence in the past five years.

Gwinnett County schools have been named the best in Georgia, but that doesn't satisfy superintendent Alton C. Crews. His immediate goal is to have the best school system in the Southeast for his 60,000 students.

LEARN MORE ABOUT GWINNETT FROM THE PEOPLE WHO KNOW IT BEST.

If you want to know more about Gwinnett's growth and potential, we've got the answers. We're the Atlanta Journal Constitution — the hometown newspaper growing even faster than Gwinnett.

Our feature edition, **Gwinnett Annual Report: Agenda for the Future**, will be the definitive analysis of this extraordinary county. It will include everything from education and the environment to lifestyles and leisure — with the completeness and perspective that only the local newspaper can offer.

Find out why Gwinnett keeps turning up on everybody's list of business sites to consider. **Gwinnett Annual Report** publishes on Sunday, Feb. 19. Send us a business card now to reserve your copy.

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The schools are a magnet, contin-
lly attracting more families to
vinnett County. Each school day,
new students enroll, which
eans two new classrooms are
eded every week.

Parents are doing their part to sup-
rt that growth. With a 77% "yes"
te, they approved a $70 million
nd issue this year for more
ssrooms. And 50,000 PTA mem-
rs take active roles in their
ildren's schools.

to courtesy of Sherry Abbott

INTERNATIONAL

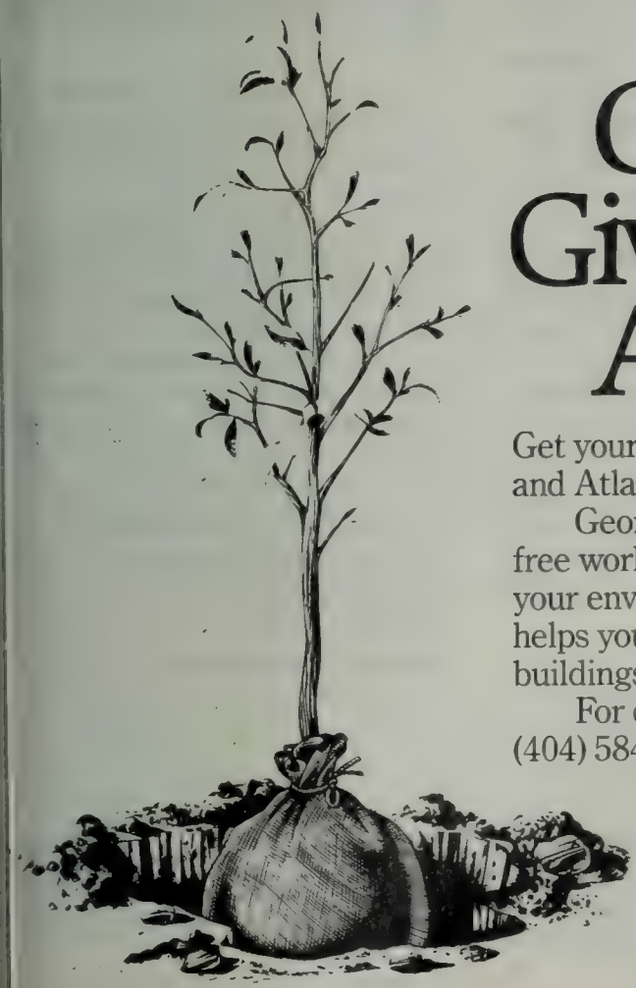
International companies, including 60 from Japan alone, have poured into Gwinnett County during the past 15 years. "Gwinnett has more Japanese companies than most Southeastern states," said developer Ray Weeks.

The county didn't initially plan to attract so many international firms. "It's just that we're interested in quality companies," Weeks said, "and they're very quality conscious. Their objectives and ours are similar."

Over the past decade, Gwinnett has worked hard to make the international newcomers feel welcome. The school system, for example, created special programs for its 1,332 international students. Many of them are bilingual, speaking a total of 36 different languages, but others lack English proficiency. Ten teachers work in a program called English for Speakers of Other Languages to help those students adjust to life in America.

Also, the Chamber of Commerce recently created an International Committee composed of chief executive officers and representatives of international firms in the county to further develop that community.

Photo courtesy of Sherry Abbott



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GWINNETT COUNTY
A GROWING SUCCESS

SCOTT HUDGENS

Two decades ago, when the prestigious Atlanta Athletic Club went looking for a home outside the city, the members sent real estate developer Scott Hudgens on a scouting mission. The location had to be perfect. After all, the AAC was the home club of legendary golfing great Bobby Jones.

An extensive search led Hudgens to the banks of the Chattahoochee River, running cold and clear out of the Blue Ridge Mountains. A short drive north of the city, the tract Hudgens found was perfect for a golf course.

Hudgens' son Mark remembers when his father came home and told the family they would also be moving out of the city. "He found a farm across the river in Gwinnett County," the younger Hudgens said. "It was a beautiful piece of property, with plateaus down to the river." Scott Hudgens bought 1,600 acres and moved his family into a renovated century-old home on the property. He then went about his business, developing shopping centers as Atlanta grew north.

Gwinnett Place Mall

By the early 1980s, he was ready to invite others to share the beauty of the property he had found. He developed Sweetbottom Plantation, perhaps Atlanta's most distinctive new neighborhood. Homes ranging in price from $350,000 to more than $1 million are all built along the lines of homes on the National Register of Historic Places. "We didn't want to have a $300,000 French colonial next to a $500,000 Spanish modern," said Mark Hudgens, vice president of the Scott Hudgens Company.

Now, a half mile upstream, the Scott Hudgens Company is developing River Green, a 290-acre business park. "This is as pretty a piece of property as you'll find," Mark Hudgens said. "It's going to be a unique business park for companies establishing regional and national headquarters."

Gwinnett's Vital Statistics

Gwinnett's largest daily newspaper, the Daily News, has captured the essence of Gwinnett in words, pictures and statistics in our full color, 30 page "Market Guide"

nd for only $2.00 a wise estment in any circles, we'll send you this ental and informative publication

GWINNETT Daily News

NETWORK PUBLICATIONS

Large companies often get head lines when they move to Gwinnet County, but the smaller ones provid much of the economy's drive.

Network Publications, for exam ple, has created 135 jobs with a $ million investment. The compan publishes and prints real estat magazines for a nationwide networ of 200 independent associat publishers.

"We offer a complete package fo independent publishers," said Payn Hughes, the company's chief execu tive officer. "They sell advertisin for the magazines, and we handle a the production. Then we ship th books back to them for distribution

The Hughes Family

A family-owned company, Ne work Publications pumps millions dollars into the Gwinnett Count economy.

The company has publishers in 2 states, and is looking to expan throughout the U.S., Canada, Europ and the Caribbean.

"We ship by air and in our ow trucks, so we can get books an where in the world quickly," Hugh said.

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This section was written by Dic Parker, editorial director of an Atla ta based publisher. He is also a co tributing writer to several local an national publications.

Design & Layout by James Moaveni, R.J. GRAPHICS, Lilbur Georgia.

Special thanks to Luis A. Davil

WHO'S WHERE IN THE STOCK MARKET

Despite takeovers and buyouts, the 1988 stock market was quiet overall, with the Dow up only 5.1%.

By Eric Hardy

THE DOW INDUSTRIALS gained 62% from the beginning of 1984 to mid-November 1988, but a lot happened between these two points. Over this five-year period the Dow touched a low of 1079 during the day of June 18, 1984 and a precrash high of 2747 on Aug. 25, 1987. That's a span of 1,668 points. Measured by the Wilshire index there has been a $1.7 trillion swing in market capitalization.

What is the market worth now? The Wilshire index of 6,000 exchange-traded stocks shows equities are valued at $2.6 trillion. The Wilshire is now selling at 13 times earnings, which is a point lower than where it was at the start of 1984. Prices could go higher if security analysts *(see p. 198)* are correct in their earnings forecasts.

Over the last five years the FORBES universe of industry survey companies gained 48% on average. It wasn't the corporate giants that made the best gains. None of the 65 issues making up the three Dow averages (industrials, transportation and utilities) ranks among the top 50 stocks. IBM, for example, actually declined 5.3% over the five years and ranks near the bottom, in 805th place.

Instead, Envirodyne Industries, a specialized food packaging concern, leads with a 2322% increase. This works out to an annual compounded rate of 88%. Each dollar invested in Envirodyne is now worth $24.22.

Best Buy, a fast-growing electronics outlet, shot up 2067% while Mayfair Super Markets rose 1115%. This is the second straight year that Mayfair ranks among the top five corporations in long-term market performance. Stocks related to takeover activity also registered big increases. RJR Nabisco and Pillsbury more than tripled over the past five years. Among other firms in the takeover limelight are GAF and Kraft Inc., which are up over 200%.

General Public Utilities, easily the highest ranking electric utility, continues to make progress in the Three Mile Island cleanup; its dividend tripled from last year, to $1.80 per share.

Who were the losers? Western Savings & Loan was ranked 51st in the 1988 survey but is now ranked 938th, with a five-year stock price decline of 45.4%. Higher interest rates and a flagging real estate market caused earnings to dry up at this Arizona-based thrift. The three lowest ranked companies are all Texas financial institutions. At the bottom is United Financial Group, which is now quoted at about 3 cents per share. Allegheny International, Allis Chalmers and Todd Shipyards, which are all in Chapter 11, declined at least 90%.

Many of today's losers were ranked much higher five years ago. In 1984 Todd Shipyards, for example, was standing on a five-year gain of 232% while Allegheny International was up 97%. The tables on the following page show the 25 newest dogs and stars. If that pattern continues to hold, a portfolio of stocks like Todd Shipyards and Allegheny International, bought today, may fare better over

The best industries

Industry	5-year average price change
Packaging	194%
Food processors	164
Communications media	130
Beverages and tobacco	119
Food distributors	112

The worst industries

Industry	5-year average price change
Computers and electronics	8%
Air transport	11
Heavy equipment	18
Metals	20
Construction	21

How did we do?

General Public Utilities wasn't the only company to profit from its ability to improve its lot. Two years ago *(Jan. 12, 1987)* FORBES writers selected one company from each industry group as "the most improved" in its industry. This group of 31 stocks is up an average of 31.2% versus a 12.2% increase in the Dow. Phelps Dodge, a copper mining outfit, rose 150% on the strength of copper prices. The value of holdings in four other companies—Harcourt Brace Jovanovich, Apple Computer, Kroger and Brockway—more than doubled. The biggest disappointment to date has been Lockheed, which is off 21.3%.

The FORBES 1988 industry survey highlighted the "most innovative company" in each industry. After one year these 31 stocks are up an average 7.8% versus 5.1% for the Dow. MCI Communications (telecommunications) more than doubled. Are FORBES writers super stock pickers? We'd like to think so, but our yearly exercise really shows the value of focusing on the one or two companies in each industry that appear to offer something special.

the long term than the list that includes Envirodyne Industries and Mayfair Super Markets. That's the stuff on which contrarian dreams are made.

Although none of the 31 industries tracked by FORBES shows a stock market decline as a group during the last five years, a few failed to keep up with inflation on a yearly basis. Despite a 332% jump for Compaq Computer and a 212% gain for Apple Computer, shares of the 54 computer and electronics firms show an average five-year increase of only 8% in the period. This lackluster showing is due mostly to the terrible performance of the semiconductor stocks.

Packaging gained almost 200%, but that's partly because of spectacular action in Envirodyne Industries. Food processors and distributors, communications media and beverages and tobacco all doubled or better.

To qualify for ranking in the table beginning on page 220, a company in this survey must have been publicly traded as of Dec. 31, 1985. Corporations that made significant restructurings in the form of a special cash dividend or a spinoff of a subsidiary were not ranked. Kroger, for example, underwent a massive restructuring as part of its takeover defense against Kohlberg Kravis Roberts. This included a special dividend of $40 a share. Santa Fe Southern Pacific paid $30 per share owing to a government mandated divestiture. ■

The best companies

These were the best-performing stocks over the past five years. But staying on top may be tough.

Company	5-year price change	Recent price
Envirodyne Industries	2322.4%	25¾
Best Buy Co	2066.7	8⅛
Mayfair Super Markets	1115.3	19¼
Smithfield Foods	717.1	17⅝
First Capital Holding	671.4	6¾
Tyson Foods	621.6	15⅞
Gap	588.1	36⅛
Affiliated Publications	566.2	28½
Alberto-Culver	533.3	35⅝
Food Lion	529.0	10¾
Danaher	494.4	13⅜
Arden Group	473.1	48
Dixie Yarns	464.4	18½
GAF	459.4	46½
Village Super Market	458.6	20¼
Holly Co[illegible]	425.9	18
Schultz Sa[illegible]	403.7	17
Circuit City [illegible]	390.8	39⅞
Precision Cast[illegible]	386.4	32¾
General Public U[illegible]	380.6	37¼
Tyco Laboratories	378.6	33½
Mark IV Industries	371.4	10⅛
United Artists	369.8	25¼
Hartford Steam Boiler	366.7	31½
Olsten	362.5	21¾

The worst companies

In the past five years these industry survey stocks were clobbered. But will they be losers forever?

Company	5-year price change	Recent price
United Financial	–99.6%	1/32
Texas American Bancshares	–99.0	⅜
MCorp	–97.2	¾
Allis-Chalmers	–97.0	½
American Carriers	–95.5	⅞
TIE/Communications	–95.4	1¼
Western Union	–95.2	1¾
Savin	–95.0	¼
Allegheny International	–94.3	1⅞
Ideal Basic Industries	–92.9	1⅝
Todd Shipyards	–91.6	2⅝
Storage Technology	–89.0	1½
Maxicare Health	–87.5	1
Manville	–86.4	1½
LTV	–85.7	2⅝
Florida Federal S&L	–85.7	2¼
US Home	–82.6	2
Emery Air Freight	–82.0	4⅝
Cannon Group	–80.6	4⅛
HH Robertson	–80.4	9
Gibraltar Financial	–79.5	2⅛
Advanced Micro	–78.1	7⅜
Comstock Group	–77.9	1⅞
Arrow Electronics	–77.5	6⅛
Wang Laboratories	–77.2	8⅛

BellSouth is moving in new directions.

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WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price book value
258	196	Abbott Laboratories	97.3%	67	18½	44⅝	$3.18	14.0	2.07	$1.20	2.7%	$9.23	4.84
994	792	Advanced Micro	–78.1	44⅛	7⅛	7⅜	0.49	15.1	0.50	none	0.0	7.73	0.95
NR	NR	ADVO-System	NA	12¾	4	4¼	–0.39	def	0.09	none	0.0	3.36	1.26
601	588	Aetna Life & Cas	31.6	68¼	27¼	47⅜	6.20	7.6	0.23	2.76	5.8	53.56	0.88
8	NR	Affiliated Pubs	566.2	41¾	4⅜	28½	–0.78	def	3.69	0.20	0.7	4.69	6.08
499	421	HF Ahmanson	50.0	28¾	5¼	15⅜	1.84	8.4	0.47	0.88	5.7	17.93	0.86
354	318	Air Prods & Chems	74.2	53⅞	18⅜	38⅞	3.90	10.0	0.89	1.20	3.1	20.66	1.88
923	763	Airborne Freight	–39.1	36	11⅛	18⅛	1.01	17.9	0.17	0.60	3.3	18.03	1.01
573	NR	Alaska Air Group	38.9	27⅞	9¼	19⅝	2.02	9.7	0.39	0.16	0.8	17.37	1.13
NR	NR	Albany International	NA	19¾	9¾	15⅝	1.43	10.9	0.85	0.25	1.6	6.01	2.60
9	89	Alberto-Culver	533.3	38¼	5⅜	35⅝	1.99	17.9	0.77	0.30	0.8	9.55	3.73
141	269	Albertson's	145.2	38¾	9⅞	33¼	1.24	14.6	0.35	0.56	1.7	10.02	3.32
722	599	Alcan Aluminium	9.9	37⅞	15⅛	29⅛	4.85	6.0	0.56	1.20	4.1	22.50	1.29
321	NR	Alco Health Services	81.5[a]	29¾	10½	28⅛	1.55	18.1	0.17	none	0.0	11.09	2.54
592	633	Alco Standard	34.5	30	13⅝	23⅜	2.33	10.0	0.28	0.76	3.3	12.52	1.87
717	811	Alexander & Alexander	11.3	42⅜	15⅞	24⅝	1.46	16.9	0.88	1.00	4.1	9.30	2.65
44	57	Alexander & Baldwin	268.0	36¾	8¼	31⅛	2.63	11.8	2.33	0.80	2.6	9.79	3.18
39	48	Alexander's	292.4	77	15¾	64¼	–0.86	def	0.61	none	0.0	18.17	3.54
NR	NR	Alleghany	NA	109⅞	60¼	71	7.17	9.9	0.45	none	0.0	79.20	0.90
1007	919	Allegheny Intl	–94.3	34	1⅝	1⅞	–24.01	def	0.02	none	0.0	–9.39	NE
NR	NR	Allegheny Ludlum	NA	36⅛	15⅛	34	4.22	8.1	0.67	1.00	2.9	9.27	3.67
568	454	Allegheny Power	39.7	53½	24⅝	37⅜	3.88	9.6	0.89	3.00	8.0	28.19	1.33
887	812	Allen Group	–24.4	27¼	5½	13¾	–1.98	def	0.30	none	0.0	11.20	1.23
385	NR	Allied Products	68.6	45½	7	14¾	–1.28	def	0.13	none	0.0	27.07	0.54
835	527	Allied-Signal	–12.9[c]	54½	26	32⅜	2.94	11.0	0.41	1.80	5.6	20.87	1.55
1012	925	Allis-Chalmers	–97.0	17⅜	⅜	½	–2.34	def	0.02	none	0.0	–1.25	NE
205	321	Alltel	117.8	37¾	13⅜	35¾	3.64	9.8	1.46	1.72	4.8	17.24	2.07
702	556	Alcoa	13.6	64¾	29¾	51	8.77	5.8	0.49	1.40	2.7	43.62	1.17
648	218	AM International	21.9	9⅜	2⅜	4⅞	–0.53	def	0.31	none	0.0	3.75	1.30
807	807	AMAX	–5.8	29¼	10½	22⅜	3.00	7.5	0.47	0.40	1.8	13.45	1.66
257	325	Amdahl	97.3	28	4¾	18⅛	1.86	9.7	1.10	0.10	0.6	7.32	2.48
786	744	Amerada Hess	–3.0	41⅞	16½	28⅛	–0.22	def	0.54	0.60	2.1	26.30	1.07
932	NR	America West Airlines	–43.6	13½	3½	6⅝	–2.48	def	0.13	none	0.0	2.91	2.28
832	797	American Bankers	–11.8	17¼	7	12⅛	1.59	7.6	0.19	0.50	4.1	9.57	1.27
352	344	American Brands	74.7	60⅜	26½	51¾	5.88	8.8	0.86	2.44	4.7	26.41	1.96
736	804	American Building	7.6	30⅛	15	26½	1.66	16.0	0.17	0.92	3.5	18.55	1.43
816	NR	American Capital	–8.3[b]	9⅝	2⅛	4⅛	–0.33	def	0.12	none	0.0	4.22	0.98
1011	NR	American Carriers	–95.5	20½	¾	⅞	–6.66	def	0.01	none	0.0	10.95	0.08
683	38	American Continental	15.9	13	3⅞	8½	2.17	3.9	0.21	none	0.0	5.27	1.61
317	261	American Cyanamid	83.0	57	21⅛	45¾	3.37	13.6	0.91	1.20	2.6	20.85	2.19
479	538	American Electric	54.0	31⅝	15⅛	26⅜	2.87	9.2	1.07	2.32	8.8	20.94	1.26
426	503	American Express	60.9	40⅝	12½	26¼	1.70	15.4	0.51	0.84	3.2	10.11	2.60
92	24	American Family	186.0	18¾	3½	13	1.34	9.7	0.47	0.28	2.2	6.78	1.92
590	413	American General	34.6	46¾	19⅜	30⅝	3.37	9.1	0.68	1.40	4.6	33.81	0.91
878	773	American Greetings	–22.2	42	13	20⅝	1.15	17.9	0.53	0.66	3.2	16.75	1.2[illegible]
818	865	American Hoist	–8.6	14⅜	4¾	12	0.23	52.2	0.26	none	0.0	7.82	1.5[illegible]
462	466	American Home Prod	55.7	96¾	46¾	77¼	6.22	12.4	2.08	3.60	4.7	17.38	4.4[illegible]
262	303	American Intl Group	96.5	83¾	25½	63⅛	7.10	8.9	0.79	0.40	0.6	34.35	1.8[illegible]
829	668	American Maize	–11.3	26⅝	10¼	14¾	1.45	10.2	0.19	0.52	3.5	23.27	0.6[illegible]
903	896	American Medical	–32.8	28⅝	10⅝	16⅛	1.21	13.3	0.41	0.72	4.5	10.93	1.48
496	434	American Natl Ins	50.6	50¾	21⅜	32⅜	2.92	11.1	0.97	1.48	4.6	52.40	0.62
603	723	American Petrofina	30.9	75	38⅜	72	8.61	8.4	0.36	3.20	4.4	55.43	1.30
394	[illegible]	American President	66.8	51	13⅞	32¼	3.41	9.5	0.34	0.50	1.6	28.99	1.11
583	[illegible]	American Stores	36.9	86¼	26½	54¼	3.77	14.4	0.11	0.84	1.5	31.49	1.72
474	[illegible]	American Tel & Tel	54.5	35⅞	14⅞	27⅝	2.02	13.7	0.86	1.20	4.3	13.48	2.05
166	[illegible]	American Water Works	133.5	25⅞	6¾	17	1.84	9.2	1.03	0.68	4.0	16.99	1.00
NR	N[illegible]	AmeriFirst Bank	NA	20	8½	17¾	–0.60	def	0.45	none	0.0	17.73	1.00
213	31[illegible]	[illegible]ritech	113.7	101½	41½	91⅞	9.13	10.1	1.28	5.40	5.9	55.43	1.64
382	309	[illegible] Trust	69.1	27¼	10⅛	20½	2.22	9.2	0.81	1.12	5.5	18.45	1.11
653	317	[illegible]ept Stores	21.1	34⅝	7½	14⅜	1.02	13.1	0.24	0.10	0.7	11.34	1.27
791	531	[illegible]	–3.6	19⅝	9⅞	13½	0.80	17.0	1.06	0.60	4.4	5.76	2.34
582	415	A[illegible]	36.9[c]	90¼	48⅛	69½	8.03	8.7	0.85	3.50	5.0	46.99	1.48

Note: Except as indicated, [illegible]s are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to sto[illegible] company. Range is for peri[illegible] change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received i[illegible] spinoff. d: Does not inclu[illegible]idends given in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equi[illegible] def: Deficit.

Sources: Forbes; William O'Neill & Co.

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
53	648	Amoskeag	21.1%	45½	13½	23	$–0.38	def	0.05	$0.60	2.6%	$41.69	0.55
44	339	AMP	6.6	71½	26⅛	40⅝	2.82	14.4	1.68	1.00	2.5	12.54	3.24
93	700	Ampco-Pittsburgh	–27.7	24	11⅛	12¾	–2.16	def	0.49	0.30	2.4	15.68	0.81
10	606	AMR	30.1	65½	24¼	47	5.97	7.9	0.33	none	0.0	45.58	1.03
13	203	AmSouth Bancorp	62.2	38½	12¾	23⅞	2.67	8.9	0.74	1.32	5.5	20.43	1.17
NR	NR	Anchor Glass	NA	30½	7⅛	9½	0.32	29.7	0.13	0.08	0.8	6.24	1.52
NR	NR	Anchor Savings Bank	NA	13¼	3⅞	4⅞	–1.08	def	0.12	none	0.0	18.02	0.27
86	99	Anheuser-Busch Cos	189.2	40⅛	9	30⅛	2.38	12.7	1.01	0.72	2.4	9.87	3.05
95	396	Aon	34.2	32⅞	13⅝	27	2.59	10.4	0.62	1.28	4.7	17.48	1.54
83	NR	Apollo Computer	–67.1	30¾	7	7⅛	0.26	27.4	0.40	none	0.0	6.33	1.13
73	186	Apple Computer	211.8	59¾	7⅛	38	3.08	12.3	1.16	0.32	0.8	6.63	5.73
91	402	Archer-Daniels	89.0	27¾	8½	19¾	2.02	9.8	0.51	0.10	0.5	14.82	1.33
12	59	Arden Group	473.1	63	7½	48	5.79	8.3	0.21	none	0.0	12.76	3.76
NR	NR	Argonaut Group	NA	52⅛	17½	44½	16.42	2.7	1.05	none	0.0	34.90	1.28
NR	NR	Aristech Chemical	NA	39	16¾	25¼	6.01	4.2	0.62	0.92	3.6	14.43	1.75
56	758	Arkla	–17.5	27⅝	15⅝	18¼	1.10	16.6	0.78	1.08	5.9	12.02	1.52
60	872	Armco	–55.7	23⅜	4⅛	9¼	0.55	16.8	0.25	none	0.0	8.09	1.14
58	221	Armstrong World Inds	137.1	47⅜	11⅛	32¾	3.49	9.4	0.59	1.00	3.1	19.54	1.68
92	905	Arrow Electronics	–77.5	29⅜	3	6⅛	–0.41	def	0.08	none	0.0	8.74	0.70
97	378	Arvin Industries	50.5	39¾	10⅝	18¼	0.61	29.9	0.25	0.68	3.7	22.27	0.82
47	808	Asarco	–15.0	34½	10	25½	5.41	4.7	0.59	0.80	3.1	28.49	0.90
87	369	Ashland Oil	125.4	38⅛	10½	32⅛	3.29	9.8	0.24	1.00	3.1	17.17	1.87
NR	NR	Atari	NA	16⅛	4⅞	5⅛	0.54	9.5	0.39	none	0.0	2.91	1.76
93	785	Guy F Atkinson	–3.9b	20	12½	15⅜	–0.16	def	0.15	0.48	3.1	21.15	0.73
02	123	Atlanta Gas Light	177.2	28	9⅝	27⅜	2.25	12.2	0.56	1.76	6.4	17.52	1.56
42	484	Atlantic Energy	43.5	46⅝	19⅞	33⅜	3.74	8.9	1.01	2.76	8.3	25.71	1.30
15	831	Atlantic Financial	–37.1	19⅛	5¼	5½	1.57	3.5	0.03	0.28	5.1	24.38	0.23
36	403	Atlantic Richfield	78.0	99⅛	40⅝	77	8.42	9.1	0.79	4.00	5.2	32.26	2.39
39	228	Automatic Data	103.5	54½	14¾	36⅛	2.26	16.0	1.76	0.52	1.4	12.71	2.84
78	312	Avery International	54.1	29¼	11½	21	1.11	18.9	0.60	0.48	2.3	10.61	1.98
66	821	Avnet	–57.6	49⅛	18½	19½	1.45	13.4	0.37	0.50	2.6	19.52	1.00
76	761	Avon Products	–21.4	38⅝	17⅞	19¾	–6.48	def	0.36	1.00	5.1	10.66	1.85
NR	NR	Avondale Industries	NA	18¼	13⅜	16⅛	0.11	146.6	0.40	0.84	5.2	15.50	1.04
NR	NR	Baker Hughes	NA	27⅜	11⅛	12½	0.45	27.8	0.64	0.46	3.7	7.54	1.66
NR	NR	Balfour Maclaine	NA	14⅛	4¾	7⅞	–0.44	def	0.04	0.16	2.0	6.10	1.29
86	195	Ball Corp	90.4	48½	14⅜	29¾	2.42	12.3	0.66	1.08	3.6	17.04	1.75
54	861	Bally Manufacturing	4.5	27¾	10½	20½	1.06	19.3	0.30	0.24	1.2	18.45	1.11
53	251	Baltimore G&E	98.4	39⅞	15	31⅜	3.54	8.9	1.38	2.00	6.4	22.24	1.41
14	474	Banc One	84.2	30⅛	11½	23¾	2.57	9.3	1.21	0.92	3.9	13.86	1.71
43	NR	Bancorp Hawaii	144.3	42⅛	12	39½	5.12	7.7	1.00	0.91	2.3	25.18	1.57
85	NR	Bandag	126.6	69	19	62⅞	4.41	14.3	1.98	0.90	1.4	8.84	7.11
56	327	Bank of Boston	74.1	38	9¾	23½	2.77	8.5	0.32	1.24	5.3	23.62	0.99
27	NR	Bank of New England	79.8	39½	11¾	23⅝	3.20	7.4	0.53	1.36	5.8	20.61	1.15
15	387	Bank of New York	62.0	46¾	17½	35⅜	5.87	6.0	0.51	1.92	5.4	33.65	1.05
46	900	BankAmerica	–15.0	23⅛	5¼	17¾	2.12	8.4	0.30	none	0.0	14.56	1.22
95	433	Bankers Trust NY	66.2	55¼	18⅞	37½	9.81	3.8	0.49	1.86	5.0	37.39	1.00
81	248	CR Bard	127.5	25⅛	4⅞	19⅝	1.29	15.2	1.53	0.32	1.6	5.23	3.75
90	363	Barnes Group	51.6	40¾	18	34½	3.17	10.9	0.38	1.20	3.5	19.67	1.75
98	149	Barnett Banks	88.2	41¾	14½	32⅝	3.65	8.9	0.78	1.04	3.2	21.59	1.51
62	NR	Bassett Furniture Ind	–19.1	52	30	37⅝	2.15	17.5	0.67	1.00	2.7	31.28	1.20
84	482	Bausch & Lomb	69.0	49⅝	17½	42¼	3.14	13.5	1.34	1.00	2.4	19.40	2.18
94	737	Baxter International	–28.0	29¼	11¾	16¾	1.25	13.4	0.61	0.50	3.0	12.38	1.35
70	236	BayBanks	131.7	52	16¾	44¾	5.28	8.5	0.81	1.60	3.6	31.60	1.42
27	NR	Bear Stearns Cos	–10.6[a]	25⅜	8	12½	NA	NA	NA	0.50	4.0	10.43	1.20
78	750	Bearings	37.6	41⅞	18⅞	34⅝	3.02	11.5	0.32	0.80	2.3	25.00	1.39
03	205	Becton Dickinson	174.1	69	15½	50⅜	4.01	12.6	1.16	1.00	2.0	21.64	2.33
12	282	Bell Atlantic	114.2	79¾	32⅞	69⅞	6.56	10.7	1.34	4.08	5.8	44.13	1.58
55	NR	Bell Industries	–52.8	29½	11¼	13⅞	1.89	7.3	0.21	0.28	2.0	18.40	0.75
22	314	BellSouth	109.6	46	18⅛	39¼	3.46	11.3	1.43	2.36	6.0	24.89	1.58
37	49	Bemis	307.3	25½	5⅛	20⅞	1.39	15.0	0.51	0.44	2.1	8.66	2.41
96	478	Beneficial Corp	33.3	78⅜	23	45	4.89	9.2	0.82	2.00	4.4	30.82	1.46
IR	NR	Benj Franklin S&L	NA	10½	3½	4⅝	1.88	2.5	0.07	none	0.0	21.52	0.21

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Sources: Forbes; William O'Neill & Co.

WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Rec pric boo val
650	862	Bergen Brunswig	21.4%	27¼	10½	20¼	$1.89	10.7	0.11	$0.32	1.6%	$10.36	1.9
71	NR	WR Berkley	225.0	40¼	8	29¼	4.65	6.3	0.72	0.36	1.2	20.74	1.4
51	54	Berkshire Hathaway	258.8	4985	1220	4700	300.62	15.6	2.36	none	0.0	2477.47	1.9
2	NR	Best Buy Co	2066.7	23¼	⅜	8⅛	0.22	36.9	0.13	none	0.0	7.07	1.1
892	852	Bethlehem Steel	–27.2	29½	4⅝	20¾	4.23	4.9	0.29	none	0.0	16.20	1.2
985	840	Beverly Enterprises	–68.7	22½	4⅛	3⅞	–0.66	def	0.10	none	0.0	8.67	0.4
63	256	Big Bear	241.7	31¾	5⅝	25¼	1.81	14.0	0.24	none	0.0	10.21	2.4
872	790	Bindley Western Inds	–21.1	17⅛	5½	7	0.27	25.9	0.04	none	0.0	6.90	1.0
875	754	Black & Decker	–21.3	28⅝	13	20¾	1.65	12.6	0.53	0.40	1.9	11.12	1.8
183	184	H&R Block	126.8	34⅜	9⅜	27½	1.69	16.3	1.76	1.04	3.8	7.37	3.7
785	637	Blount	–2.4	21⅜	9¾	15⅛	0.38	39.8	0.13	0.40	2.6	11.93	1.2
452	211	BMA Corp	57.4	48¼	17⅞	30	1.58	19.0	0.58	1.20	4.0	29.55	1.0
685	328	Boatmen's Bancshares	15.8	47½	23½	33	4.08	8.1	0.74	2.00	6.1	33.37	0.9
225	441	Boeing	108.7	67⅝	23¾	60⅞	3.80	16.0	0.56	1.60	2.6	32.75	1.8
487	449	Boise Cascade	52.4	52⅛	19⅝	40	5.84	6.8	0.45	1.40	3.5	31.88	1.2
85	128	Borden	190.7	63⅞	16½	54¾	4.05	13.5	0.58	1.56	2.8	22.51	2.4
530	584	Borman's	45.3	25¾	4¼	9⅝	–11.45	def	0.03	none	0.0	3.60	2.6
701	512	Boston Edison	13.7	28	12½	16⅛	1.66	9.7	0.50	1.82	11.3	19.32	0.8
632	589	Bowater	25.0[b]	44½	14⅞	25⅝	3.94	6.5	0.67	1.12	4.4	19.57	1.3
817	828	Briggs & Stratton	–8.4	42	20¼	28½	1.99	14.3	0.44	1.60	5.6	20.97	1.3
263	177	Bristol-Myers	96.4	55⅞	20½	41½	2.80	14.8	2.04	1.68	4.0	11.21	3.7
519	528	Brooklyn Union Gas	46.7	28⅞	14	23¾	2.49	9.5	0.61	1.72	7.2	18.24	1.3
184	598	Brown-Forman	126.7	55⅜	15½	49⅛	3.50	16.5	1.31	1.68	3.4	15.82	3.1
775	688	Brown Group	0.2	44¼	25	31⅞	2.44	13.1	0.32	1.56	4.9	20.33	1.5
165	121	Browning-Ferris Inds	133.7	35¾	6⅝	25⅛	1.41	17.8	1.89	0.48	1.9	5.93	4.2
108	115	Bruno's	167.8	12⅞	3¼	9⅞	0.53	18.6	0.39	0.12	1.2	3.06	3.2
163	13	Brunswick	135.5	30¼	6	17	2.38	7.1	0.44	0.44	2.6	9.52	1.7
NR	NR	Budget Rent a Car	NA	29	8½	27⅞	1.34	20.8	0.61	none	0.0	7.25	3.8
881	NR	Burlington Coat	–23.1	34½	12	17½	1.79	9.8	0.38	none	0.0	12.82	1.3
561	260	Burlington Northern	40.9	84¼	35	69¾	3.80	18.4	0.99	2.20	3.2	46.52	1.5
679	839	Businessland	16.7	19	3	12¼	0.85	14.4	0.31	none	0.0	4.88	2.5
629	703	Butler Manufacturing	26.0	37¼	18½	31½	1.65	19.1	0.22	1.40	4.4	25.53	1.2
544	507	Cabot	43.5	49¼	20½	35⅞	2.27	15.8	0.58	0.92	2.6	21.46	1.6
240	238	Caesars World	103.3	35¾	8¼	23⅜	2.93	8.0	0.68	none	0.0	7.02	3.3
784	672	CalFed	–2.4	42	11⅜	20¾	5.91	3.5	0.19	1.40	6.7	51.01	0.4
118	176	CalMat	157.3[b]	46⅛	9⅛	27½	1.91	14.4	1.45	0.48	1.7	14.34	1.9
919	863	Cameron Iron Works	–37.6	23⅝	8⅜	12¼	–0.38	def	0.69	0.04	0.3	10.10	1.2
260	204	Campbell Soup	96.7	35⅜	13⅝	30	1.87	16.0	0.79	0.92	3.1	14.69	2.0
997	NR	Cannon Group	–80.6	45½	2⅝	4⅛	–6.50	def	0.13	none	0.0	–1.98	N
151	148	Capital Cities/ABC	139.6	450	123½	345	21.33	16.2	1.15	0.20	0.1	137.40	2.5
420	462	Capital Holding	61.6	38¾	15⅛	30	2.95	10.2	0.74	0.94	3.1	23.02	1.3
553	788	Cardinal Distribution	42.2	20⅞	8¼	17	2.20	7.7	0.14	0.08	0.5	9.78	1.7
663	814	Carlisle Cos	20.3	40¼	22	33⅜	2.86	11.7	0.48	1.16	3.5	22.78	1.4
NR	NR	Carnival Cruise Lines	NA	17½	8⅛	13¾	1.39	9.9	3.11	0.40	2.9	4.72	2.9
871	523	Carolina Freight	–20.8	42½	13⅞	23¾	0.90	26.4	0.24	0.54	2.3	19.15	1.2
423	475	Carolina Power & Lt	61.4	42⅞	19¼	35½	2.34	15.2	1.29	2.76	7.8	29.41	1.2
844	755	Carpenter Technology	–14.9	58¼	28½	45¾	3.16	14.5	0.72	2.10	4.6	33.61	1.3
NR	63	Carson Pirie Scott	NA	16½	7¼	11¼	0.31	36.3	0.14	0.10	0.9	11.44	0.9
NR	NR	Carter Hawley Hale	NA	12½	6¾	8¼	0.21	39.3	0.07	none	0.0	–10.19	N
45	NR	Carter-Wallace	266.4	75½	9¾	38¼	2.75	13.9	1.15	0.68	1.8	17.46	2.1
277	NR	Castle & Cooke	92.3[a]	29⅜	10⅛	25	2.12	11.8	0.68	none	0.0	10.78	2.3
623	564	Caterpillar	27.0	74¾	28⅜	60	5.84	10.3	0.62	0.75	1.3	35.15	1.7
836	877	CBI Industries	–13.1	33⅞	16	25¾	0.82	31.4	0.35	0.60	2.3	24.73	1.0
126	110	CBS	151.9	226¼	61½	166⅞	53.06	3.1	1.42	4.40	2.6	56.70	2.9
30	NR	CDI Corp	347.9	29⅞	5⅛	27	2.24	12.1	0.27	none	0.0	9.51	2.8
284	535	Centel	90.6	52¼	20½	44⅝	3.50	12.8	1.44	1.84	4.1	23.81	1.8
NR	NR	Centerior Energy	NA	27¾	12¼	12½	2.24	5.6	0.88	1.60	12.8	22.10	0.5
207	432	[illegible]rre Bancorp	116.2	57¼	18½	56¾	3.11	18.2	0.86	1.80	3.2	43.56	1.3
689	777	[illegible]	15.3[b]	40½	15⅛	26⅛	1.86	14.2	0.24	0.25	0.9	24.25	1.0
468	392	[illegible] No West	55.1	40½	16⅞	30¼	3.94	7.7	1.14	2.44	8.1	26.52	1.1
824	765	C[illegible] [illegible]n G&E	–9.8	39⅞	16⅛	20¾	1.65	12.6	0.69	1.70	8.2	20.35	1.0
585	587	Cen[illegible] [illegible] Svc	36.2	30¾	14	21⅝	2.35	9.2	1.21	1.76	8.1	16.73	1.2

Note: Except as indicated, pr[illegible]e from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to st[illegible] company. Range is for period s[illegible]nge. a Three-year price change. b Four-year price change. c Price change does not reflect the value of shares received [illegible] spinoff. d Does not include s[illegible]nds given in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equ[illegible] def: Deficit.

Sources: Forbes, William O'Neill & C[illegible]

88	Rank 87	Company	5-year price change	1984-88 price range high	low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
36	767	Central Maine Power	23.3%	20½	7⅞	17⅞	$2.24	8.0	0.64	$1.48	8.3%	$15.12	1.18
38	271	Central Steel & Wire	77.3	585	315	585	105.74	5.5	0.27	91.50	15.6	484.75	1.21
95	NR	CenTrust Savings Bank	14.5[a]	13½	3⅞	7	1.91	3.7	0.07	1.35	19.3	28.52	0.25
58	625	Champion Intl	3.5	44⅝	16⅞	29⅞	4.40	6.8	0.57	1.00	3.3	30.82	0.97
52	747	Champion Spark Plug	21.2	16⅜	7¾	12⅞	0.41	31.4	0.61	0.20	1.6	10.32	1.25
95	82	Charming Shoppes	123.0	36¾	4½	13⅝	0.62	23.9	1.00	0.12	0.9	3.86	3.53
78	908	Charter	–63.3	12⅞	1	4⅛	1.74	2.4	0.33	none	0.0	1.77	2.33
55	683	Chase Manhattan	20.9	49½	17⅞	27½	10.36	2.7	0.20	2.16	7.9	38.70	0.71
33	719	Chemical Banking	8.2	56¼	20	31¾	11.56	2.7	0.38	2.72	8.6	25.96	1.22
38	419	Chesapeake	44.3	26⅝	10½	19	2.50	7.6	0.55	0.56	2.9	11.68	1.63
31	624	Chevron	25.3	64⅝	29¼	43⅜	5.34	8.1	0.57	2.60	6.0	40.62	1.07
38	103	Chicago Pacific	306.1	58	14½	53¼	6.02	8.8	0.48	0.60	1.1	31.17	1.71
43	NR	Child World	22.4[a]	20¼	7½	15	0.79	19.0	0.22	none	0.0	17.06	0.88
50	111	Chrysler	99.5	48	9⅜	24½	4.34	5.6	0.18	1.00	4.1	29.36	0.83
39	133	Chubb	77.2	78⅛	23¼	54¼	7.78	7.0	0.56	2.16	4.0	48.10	1.13
12	884	Church's Fried	–36.7	20¼	5	7¾	0.11	70.5	0.71	0.20	2.6	6.99	1.11
39	662	Cigna	7.1	77¼	27	46⅞	5.80	8.1	0.21	2.96	6.3	63.73	0.74
75	429	CILcorp	54.5	43⅜	18½	32¼	2.38	13.6	0.95	2.40	7.4	23.77	1.36
33	120	Cincinnati Bell	322.1	45¾	8¾	42⅞	2.67	16.1	1.87	1.12	2.6	14.04	3.05
66	270	Cincinnati Financial	72.1	76	26¼	54¼	7.47	7.3	0.96	1.76	3.2	39.77	1.36
45	593	Cincinnati G&E	101.0	31⅛	8⅞	25⅞	2.43	10.6	0.93	2.24	8.7	20.49	1.26
14	857	Cincinnati Milacron	–37.0	35	14	20⅝	–2.86	def	0.58	0.72	3.5	8.66	2.38
06	307	Circle K	48.5	18⅝	6⅞	12⅝	0.97	13.0	0.20	0.28	2.2	6.71	1.88
18	1	Circuit City Stores	390.8	45¼	5⅞	39⅞	2.59	15.4	0.58	0.12	0.3	8.99	4.44
43	NR	Circus Circus	268.9	34¾	6⅞	28⅛	2.11	13.3	1.74	none	0.0	7.34	3.83
98	657	Citicorp	32.7	34⅛	13¾	24⅝	–1.74	def	0.26	1.48	6.0	22.12	1.11
51	254	Citizens & Southern	74.8	30½	12⅞	25⅛	3.19	7.9	0.76	1.24	4.9	17.80	1.41
80	894	CityFed Financial	–65.2	18⅛	3⅜	3⅞	–0.33	def	0.07	0.04	1.0	14.53	0.27
77	786	Clark Equipment	–21.5	39⅛	15¾	29⅝	1.23	24.1	0.41	none	0.0	21.18	1.40
59	266	Clorox	136.8	36	11⅜	31⅜	2.50	12.6	1.32	1.04	3.3	13.19	2.38
71	842	CMS Energy	70.8	26½	4⅛	24⅛	3.43	7.0	0.68	none	0.0	16.96	1.42
07	78	CNA Financial	168.0	75	21	56⅝	8.06	7.0	0.45	none	0.0	46.40	1.22
27	665	CNW	–40.8	44½	16¼	25¾	2.84	9.1	0.42	none	0.0	22.53	1.14
82	849	Coachmen Industries	–66.8	29¾	6⅝	8⅝	0.28	30.8	0.16	0.40	4.6	9.83	0.88
65	NR	Coast S&L Assn	1.8[a]	22	11¼	14¼	3.83	3.7	0.14	0.40	2.8	33.82	0.42
88	73	Coastal Corp	125.3	40⅜	10½	30½	2.12	14.4	0.22	0.40	1.3	17.11	1.78
69	231	Coca-Cola	132.0	53⅛	16⅜	41⅜	2.72	15.2	1.86	1.20	2.9	8.66	4.78
JR	NR	Coca-Cola Enterprises	NA	21¼	10½	14	0.73	19.2	0.52	0.05	0.4	10.92	1.28
76	716	Coleman	–0.3	46¾	25¼	36⅞	3.50	10.5	0.40	1.20	3.3	26.26	1.40
61	304	Colgate-Palmolive	96.5	52⅝	20½	42¼	3.35	12.6	0.58	1.48	3.5	17.35	2.44
00	342	Collins Foods Intl	65.9	23½	6½	14⅜	1.14	12.6	0.58	0.10	0.7	8.93	1.61
01	595	Columbia Gas System	–4.6	56½	26¾	33⅝	2.04	16.5	0.48	2.00	5.9	34.08	0.99
JR	NR	Columbia Pictures	NA	16⅛	6¾	10⅝	–0.94	def	0.92	none	0.0	8.58	1.24
88	58	Columbia S&L Assn	–3.4	17⅝	3½	7	0.23	30.4	0.13	0.28	4.0	20.13	0.35
50	793	Combustion Eng	–16.5	45⅜	22⅝	26½	0.48	55.2	0.29	1.00	3.8	22.67	1.17
36	487	Comdisco	59.9	36½	5⅜	20¼	0.41	49.4	0.64	0.24	1.2	11.24	1.80
89	189	Comerica	124.7	51½	17⅜	45½	6.49	7.0	0.70	2.00	4.4	33.49	1.36
44	364	Commerce Bcshs	75.7	42¼	19⅞	39¾	4.73	8.4	0.85	1.20	3.0	35.22	1.13
33	366	Commerce Clearing	60.0	71	25	48	3.03	15.8	1.45	1.40	2.9	10.47	4.58
JR	NR	Commercial Credit	NA	34⅝	17	21	2.23	9.4	0.93	0.28	1.3	15.33	1.37
77	NR	Commercial Federal	54.4[b]	19⅜	5¼	8¾	0.21	41.7	0.09	none	0.0	18.64	0.47
71	376	Commercial Metals	39.3	31½	11⅜	23½	2.85	8.2	0.19	0.44	1.9	17.22	1.36
64	667	Commonwealth Ed	20.2	38	20	31¼	3.52	8.9	1.20	3.00	9.6	33.26	0.94
11	463	Commonwealth Energy	62.6	45¾	16¼	31½	3.16	10.0	0.45	2.80	8.9	29.83	1.06
52	32	Compaq Computer	332.0	78½	3½	54	5.33	10.1	1.13	none	0.0	11.69	4.62
29	NR	Computer Associates	354.2	37¼	3¾	27¼	1.55	17.6	2.66	none	0.0	6.31	4.32
72	169	Computer Sciences	130.3	73	11	44⅝	3.00	14.9	0.58	none	0.0	21.36	2.09
93	NR	Comstock Group	–77.9[b]	14⅛	1½	1⅞	–5.15	def	0.02	none	0.0	4.37	0.43
24	147	ConAgra	152.9	38	9⅞	28⅞	2.05	14.1	0.23	0.77	2.7	10.40	2.78
33	273	Consolidated Edison	78.9	52⅞	22⅝	44½	4.64	9.6	1.00	3.20	7.2	34.91	1.27
93	436	Consol Freightways	51.2	41¼	13½	30⅜	2.46	12.3	0.44	0.98	3.2	18.16	1.67
76	84	Consol Natural Gas	128.8	46⅝	15½	38¾	2.41	16.1	1.36	1.64	4.2	19.27	2.01

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Sources: Forbes; William O'Neill & Co.

WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price book value
89	72	Consolidated Papers	187.4%	43½	12⅝	37	$3.34	11.1	1.84	$1.00	2.7%	$13.96	2.65
NR	NR	Consolidated Rail	NA	40⅞	20	32¼	4.46	7.2	0.65	1.20	3.7	55.52	0.58
889	NR	Consolidated Stores	–26.4[a]	23⅝	2⅝	5¾	0.33	17.4	0.43	none	0.0	2.83	2.03
615	820	Constar Intl	28.5	30⅞	11⅝	22	1.39	15.8	0.23	0.64	2.9	12.33	1.78
364	422	Contel	72.5	39⅝	18	36⅞	1.65	22.3	0.95	2.08	5.6	18.28	2.02
617	574	Continental Corp	28.2	55	23½	35¼	1.70	20.7	0.33	2.60	7.4	42.05	0.84
798	885	Continental Illinois	–4.3[b]	10¼	2¼	5½	–1.49	def	0.20	0.20	3.6	4.43	1.24
834	NR	Continental Info Sys	–12.5	13⅝	1¾	3	0.01	300.0	0.05	none	0.0	5.48	0.55
972	859	Control Data	–61.9	48½	15⅛	17¼	0.59	29.2	0.20	none	0.0	24.85	0.69
974	NR	Cooper Cos	–62.3	28¾	5⅛	5¾	–4.61	def	0.15	none	0.0	10.34	0.56
501	423	Cooper Industries	49.6	74½	26	52	4.06	12.8	0.64	1.80	3.5	31.74	1.64
98	543	Cooper Tire & Rubber	178.7	27¼	6⅜	22⅛	1.76	12.6	0.62	0.30	1.4	10.89	2.03
787	550	Adolph Coors	–3.1	31⅝	12	19⅝	1.32	14.9	0.49	0.50	2.5	28.19	0.70
925	889	Copperweld	–40.6	23¼	5⅜	12¼	1.75	7.0	0.38	0.30	2.4	8.96	1.37
111	208	CoreStates Financial	164.5	44⅛	14⅞	41	4.33	9.5	1.03	1.68	4.1	25.55	1.60
318	553	Corning Glass Works	82.4	81½	29¾	63⅝	6.59	9.7	1.37	1.48	2.3	34.09	1.87
634	NR	Costco Wholesale	24.5[a]	19½	5⅝	14⅝	0.46	31.8	0.18	none	0.0	3.65	4.01
136	335	CPC International	146.8	58½	17⅛	47½	3.58	13.3	0.83	1.60	3.4	13.61	3.49
192	285	Craig	123.3	22¼	4¼	16¾	1.98	8.5	0.03	none	0.0	10.24	1.64
NR	296	Crane	NA	26½	13⅝	22½	2.04	11.0	0.45	1.00	4.4	11.40	1.97
267	61	Cray Research	95.5	135¾	19¼	54⅜	3.27	16.6	2.85	none	0.0	19.85	2.74
470	368	Crestar Financial	55.0	35⅞	12½	24⅛	2.60	9.3	0.68	1.12	4.6	19.45	1.24
968	NR	Cross & Trecker	–58.9	30¼	10¾	11⅞	1.90	6.3	0.34	none	0.0	15.11	0.79
752	NR	CrossLand Savings FSB	4.5[a]	24¾	7¼	14½	4.27	3.4	0.16	0.80	5.5	33.88	0.43
757	709	Crown Central Pet	3.5	26	9⅛	18½	10.53	1.8	0.10	none	0.0	26.79	0.69
69	76	Crown Cork & Seal	227.1	46⅝	11⅝	40¾	3.27	12.4	0.60	none	0.0	22.73	1.79
410	NR	CRS Sirrine	62.8	24⅞	8¾	23⅞	1.41	16.9	0.28	0.24	1.0	10.86	2.20
635	500	CSX	23.7	41¾	18⅜	30⅝	0.93	32.9	0.62	1.24	4.0	32.18	0.95
312	257	Culbro	84.2	58½	18¼	42⅜	2.11	20.1	0.22	0.80	1.9	33.60	1.26
926	722	Cummins Engine	–40.7	94¾	40¾	47¾	–1.95	def	0.16	2.20	4.6	66.47	0.72
539	286	Curtice Burns Foods	44.2	27⅞	14½	24⅞	2.65	9.4	0.20	0.80	3.2	15.11	1.65
179	NR	CVN Cos	127.8[b]	38	3⅞	15⅜	0.65	23.7	0.46	none	0.0	8.00	1.92
NR	NR	Cyclops Industries	NA	49½	19¼	21	–1.98	def	0.15	none	0.0	–0.51	NE
313	NR	Cyprus Minerals	84.2[a]	36	14	30⅝	4.28	7.2	0.69	0.40	1.3	32.92	0.93
388	NR	Dairy Mart	68.2	15⅜	4⅛	10¼	1.03	10.0	0.09	0.12	1.2	6.53	1.57
886	NR	Dallas Corp	–24.1	23½	7⅝	13⅜	0.75	17.8	0.24	0.66	4.9	13.62	0.98
618	496	Dana	28.1	54¼	21⅛	35⅞	3.44	10.4	0.31	1.60	4.5	21.63	1.66
11	NR	Danaher	494.4	20	2¼	13⅜	1.62	8.3	0.41	none	0.0	4.53	2.95
954	684	Data General	–52.7	76	16	17⅝	–0.55	def	0.36	none	0.0	21.32	0.83
851	NR	Datapoint	–16.7[a]	9¼	3⅜	4⅜	–0.55	def	0.13	none	0.0	10.76	0.41
633	699	Dayton Hudson	24.5	63	25⅛	38¾	2.68	14.5	0.28	1.02	2.6	23.15	1.67
265	213	Dean Foods	95.8	38½	16½	28½	1.67	17.1	0.49	0.60	2.1	9.90	2.88
665	712	Deere	20.1	50½	21½	46¼	3.87	12.0	0.61	0.80	1.7	28.23	1.64
393	550	Delchamps	67.3	28	9¾	20½	1.38	14.9	0.16	0.36	1.8	9.99	2.05
599	424	Delmarva Power & Lt	32.5	25½	11½	17	1.60	10.6	1.03	1.46	8.6	13.01	1.31
660	801	Delta Air Lines	20.4	67⅛	27	47⅞	7.11	6.7	0.33	1.20	2.5	44.99	1.06
NR	NR	Delta Woodside Inds	NA	16½	5¼	10	1.57	6.4	0.35	0.20	2.0	4.94	2.02
155	162	Deluxe Corp	138.2	42¼	8⅞	23¾	1.65	14.4	1.83	0.92	3.9	5.77	4.12
742	481	Dennison Mfg	6.6	35½	17⅞	24⅞	2.16	11.5	0.54	1.28	5.1	14.83	1.68
748	735	DeSoto	5.5	46	21	33½	0.74	45.3	0.35	1.40	4.2	24.32	1.38
668	497	Detroit Edison	19.1	19⅜	11½	16⅜	1.88	8.7	0.80	1.68	10.3	19.69	0.83
547	[illegible]	Dexter	43.2	32⅜	11⅞	21	1.51	13.9	0.63	0.80	3.8	11.84	1.77
320	4[illegible]	Di Giorgio	81.7	32¼	9⅜	23⅝	1.53	15.4	0.12	0.64	2.7	17.49	1.35
NR	N[illegible]	Diamond Shamrock R&M	NA	18¼	7⅜	14¾	1.14	12.9	0.19	0.40	2.7	10.20	1.45
194	272	[illegible]brell Brothers	123.0	15	6	13¾	1.72	8.0	0.16	0.56	4.1	9.65	1.42
896	NR	[illegible]d	–30.2	60¾	31⅛	36⅛	2.59	13.9	1.05	1.30	3.6	25.92	1.39
135	151	[illegible] Equipment	147.2	199½	35¼	89	9.58	9.3	0.94	none	0.0	59.47	1.50
87	29	[illegible] Stores	188.4	57½	10¾	40⅜	2.95	13.7	0.54	0.16	0.4	20.00	2.02
[illegible]	NR	[illegible] Savings Bank FSB	NA	27	12⅝	14¾	2.33	6.3	0.32	0.60	4.1	28.60	0.52
[illegible]	62	Walt Disney	360.8	82½	11⅜	60⅝	3.80	16.0	2.34	0.40	0.7	14.01	4.33
441	198	Diversified Energies	59.0	29⅞	15	24¾	2.17	11.4	0.53	1.52	6.1	16.28	1.52
13	NR	Dixie Yarns	464.4	33¾	2⅞	18½	1.93	9.6	0.36	0.60	3.2	17.36	1.07

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Sources: Forbes; William O'Neill & Co.

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
859	799	Dollar General	–18.6%	29⅜	4¾	9½	$0.32	29.7	0.29	$0.20	2.1%	$5.82	1.63
444	249	Dominion Bankshares	58.6	25⅜	9⅜	16¾	2.14	7.8	0.75	0.80	4.8	13.82	1.21
268	305	Dominion Resources	95.5	52⅛	20⅜	43¼	4.48	9.7	1.29	3.20	7.4	31.44	1.38
387	310	RR Donnelley & Sons	68.2	45⅜	16	32⅜	2.54	12.7	0.91	0.78	2.4	14.91	2.17
315	353	Dover	83.3	38⅞	14⅜	27½	2.12	13.0	0.96	0.68	2.5	10.14	2.71
138	90	Dow Chemical	146.4	109⅝	25¾	82¼	11.24	7.3	0.98	2.80	3.4	30.46	2.70
779	505	Dow Jones	–1.7	56¼	23½	31⅞	2.44	13.1	1.91	0.68	2.1	8.80	3.62
299	577	DPL	86.9	29¼	11⅝	25	2.29	10.9	1.06	2.16	8.6	19.61	1.27
716	748	Dravo	11.5	21⅞	8¾	15¾	–4.57	def	0.88	none	0.0	6.03	2.61
630	673	Dresser Industries	25.9	35⅝	14	26⅛	1.65	15.8	0.47	0.80	3.1	21.51	1.21
482	219	EI du Pont de Nemours	53.4	131	42⅜	79¾	8.85	9.0	0.59	3.80	4.8	58.65	1.36
330	329	Duke Power	79.1	52	22¼	45	4.60	9.8	1.24	2.96	6.6	31.95	1.41
373	263	Dun & Bradstreet	70.6	71¾	25⅝	52⅞	2.58	20.5	2.43	1.74	3.3	10.95	4.83
619	794	Duquesne Light	27.8	19½	10⅝	17¼	1.93	8.9	1.08	1.20	7.0	17.61	0.98
586	834	Durr-Fillauer	35.8	18⅜	7⅛	15¾	0.68	23.2	0.21	0.18	1.1	7.93	1.99
110	74	DWG	165.0	9¼	1⅜	6¾	1.62	4.2	0.10	none	0.0	6.44	1.05
804	698	E-Systems	–5.2	40⅞	21¾	29⅞	2.32	12.9	0.67	0.50	1.7	13.93	2.14
922	450	Eagle-Picher Inds	–38.6	53	13½	15⅞	3.96	4.0	0.23	1.12	7.1	19.39	0.82
802	708	Eastern Gas & Fuel	–4.7	33¼	19¼	22⅞	2.07	11.1	0.79	1.30	5.7	19.52	1.17
611	619	Eastman Kodak	29.3	71	26¾	43¾	4.10	10.7	0.89	2.00	4.6	18.54	2.36
559	278	Eaton	41.2	71⅞	25⅛	52	5.49	9.5	0.57	2.00	3.8	28.17	1.85
566	571	Echlin	40.0	25⅜	10⅛	16⅝	1.12	14.8	0.71	0.62	3.7	10.88	1.53
425	467	Ecolab	61.0	33¾	10¾	25¼	1.43	17.7	0.58	0.66	2.6	14.74	1.71
NR	NR	Edgcomb	NA	8⅜	1⅞	7⅛	0.65	11.0	0.10	none	0.0	2.15	3.31
823	NR	Edison Bros Stores	–9.0[a]	44	21⅞	31½	–0.53	def	0.35	1.80	5.7	19.50	1.62
708	784	AG Edwards	12.5	38⅞	12⅜	18	1.32	13.6	0.75	0.68	3.8	13.43	1.34
843	644	EG&G	–14.2	45⅛	26⅛	27⅞	2.18	12.8	0.59	0.68	2.4	9.79	2.85
698	NR	El Paso Electric	14.0	21⅝	10	15¼	1.11	13.7	1.36	1.52	10.0	16.40	0.93
602	549	Emerson Electric	31.4	42⅜	19½	29⅛	2.31	12.6	1.01	1.12	3.8	11.68	2.49
720	706	Emerson Radio	10.0	12¾	2⅛	3⅜	–0.03	def	0.17	none	0.0	2.14	1.58
998	907	Emery Air Freight	–82.0	26	3¾	4⅝	–2.42	def	0.08	none	0.0	6.31	0.73
556	379	Emhart	41.7	26⅝	12⅜	20¼	1.92	10.5	0.46	0.88	4.3	13.52	1.50
NR	NR	Empire of America	NA	7	1½	1½	–2.97	def	0.02	none	0.0	9.84	0.15
897	781	Engelhard	–30.4	29¼	14⅜	17⅞	1.27	14.1	0.34	0.56	3.1	16.36	1.09
810	567	Enron	–6.3	54⅝	31	37	1.48	25.0	0.31	2.48	6.7	29.32	1.26
879	752	Enserch	–22.5	29⅞	13⅛	17¼	–4.02	def	0.36	0.80	4.6	13.62	1.27
1	NR	Envirodyne Industries	2322.4	36⅞	1	25¾	2.46	10.5	0.97	none	0.0	7.10	3.63
101	171	Equifax	178.2	32⅞	7⅞	25½	1.53	16.7	0.87	0.84	3.3	5.86	4.35
507	479	Equitable of Iowa	48.3	27	11½	22	2.12	10.4	0.32	1.00	4.5	29.55	0.74
432	127	Equitable Resources	60.5	46⅞	19	32⅝	1.76	18.5	1.73	1.28	3.9	21.90	1.49
255	NR	Esselte Business Sys	97.5[b]	46⅛	12⅝	29⅜	2.87	10.2	0.43	0.88	3.0	21.35	1.38
74	18	Ethyl	209.8	32¼	5	19¾	1.86	10.6	1.21	0.48	2.4	7.87	2.51
202	126	Exxon	119.4	50¾	18⅛	41	4.01	10.2	0.71	2.20	5.4	24.38	1.68
880	851	Fairchild Industries	–23.0	20⅜	7⅞	14¼	0.95	15.0	0.39	0.20	1.4	8.12	1.75
797	677	Family Dollar Stores	–4.2	28⅛	7	13¼	0.98	13.5	0.55	0.32	2.4	5.49	2.41
55	201	Farmers Group	247.3	73¼	17⅛	72½	4.26	17.0	3.86	1.44	2.0	22.34	3.25
855	NR	Fay's Drug	–17.0	12½	4¾	10	0.58	15.8	0.27	0.20	2.0	3.90	2.56
800	576	Federal Express	–4.6	75½	27¾	44⅛	3.48	12.7	0.57	none	0.0	25.17	1.75
622	697	Federal-Mogul	27.0	55¾	29⅛	47	3.77	12.5	0.50	1.72	3.7	27.30	1.72
246	647	Federal Natl Mortgage	100.0	52¼	10⅞	46	6.90	6.7	0.34	0.96	2.1	23.00	2.00
409	243	Federal Paper Board	62.8	27	8¼	18⅝	2.67	7.0	0.68	0.64	3.4	11.76	1.58
282	502	Ferro	91.0	40¾	11⅛	31¾	3.22	9.9	0.44	0.72	2.3	19.04	1.67
NR	NR	FHP International	NA	14¼	5½	11	1.65	6.7	0.20	none	0.0	3.54	3.11
704	681	Fieldcrest Cannon	13.6	43	12⅝	20⅞	–0.33	def	0.16	0.68	3.3	25.36	0.82
60	118	Figgie Intl	243.4	92	21⅛	91	8.57	10.6	0.57	0.88	1.0	47.55	1.91
971	NR	Fin Cp Santa Barbara	–61.5	17⅝	2½	3⅛	0.38	8.2	0.04	0.10	3.2	6.76	0.46
NR	NR	Finevest Foods	NA	14¼	9¼	9¼	0.32	28.9	0.16	0.12	1.3	2.13	4.34
792	NR	Fireman's Fund	–3.6[a]	44½	24⅛	29¾	4.07	7.3	0.40	0.50	1.7	26.17	1.14
372	235	First American	70.6	34⅝	12¼	22¾	1.88	12.1	0.70	1.25	5.5	21.06	1.08
232	NR	First Amer Financial	105.6	35	11¼	27¾	2.66	10.4	0.22	0.70	2.5	28.18	0.98
467	224	First Bank System	55.3	37⅛	10⅝	20⅞	2.49	8.4	0.53	1.64	7.9	21.82	0.96
148	570	First Boston	140.7	62¾	17¼	50¼	3.67	13.7	0.44	1.00	2.0	33.24	1.51

Note: Except as indicated, price changes are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to stock company. Range is for period since such change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received in a spinoff. d: Does not include stock dividends given in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equity. def: Deficit.

Sources: Forbes; William O'Neill & Co.

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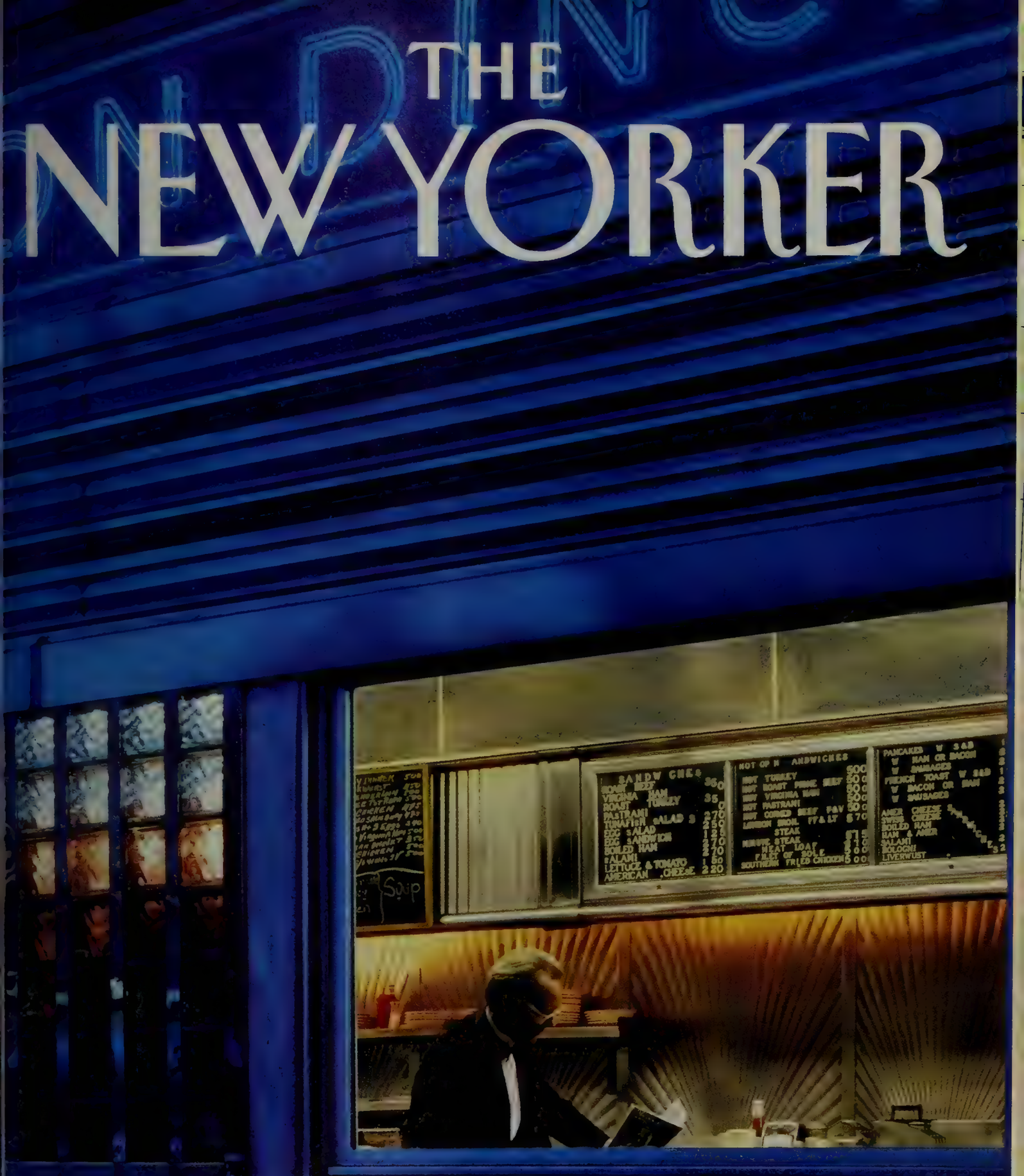

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WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
5	NR	First [illegible]	671.4%	26⅞	¾	6¾	$1.47	4.6	0.19	none	0.0%	$7.02	0.96
666	634	First [illegible]	19.7	35¼	16⅝	30⅜	4.27	7.1	0.37	$1.50	4.9	24.80	1.22
536	635	First [illegible]	44.5	21⅛	5¾	14¼	1.80	7.9	0.37	none	0.0	14.63	0.98
480	654	First [illegible]	53.6	30	5¾	13¼	1.74	7.6	0.13	0.60	4.5	35.58	0.37
360	322	[illegible]	73.4	46½	15⅝	35⅞	2.85	12.6	0.72	2.00	5.6	25.47	1.41
718	620	[illegible] Bncp	11.1	67⅜	30¼	46¼	–1.58	def	0.37	2.92	6.3	44.39	1.04
48	193	[illegible] Bncp	261.3	35¾	8⅞	35	2.98	11.8	0.99	1.00	2.9	24.67	1.42
145	[illegible]	[illegible] America Bank	142.2	54	17⅞	44	6.02	7.3	0.58	2.00	4.5	43.38	1.01
308	[illegible]	[illegible] Pennsylvania	84.9	12⅝	4½	12¼	0.81	15.1	0.81	none	0.0	5.23	2.34
678	[illegible]	[illegible] Security	17.2	35½	15	24¾	2.46	10.1	0.60	1.20	4.8	29.72	0.83
381	291	First Tennessee Natl	69.3	36⅝	14⅛	27⅜	2.58	10.6	0.71	1.40	5.1	21.72	1.26
[illegible]	158	First Union	47.3	30	11⅝	20⅝	2.71	7.6	0.78	0.88	4.3	16.25	1.27
[illegible]	328	First Wachovia	12.5[a]	46⅜	30½	38¼	4.00	9.6	1.12	1.52	4.0	23.94	1.60
137	136	First Wisconsin	146.6	33	8	25⅛	2.77	9.1	0.70	1.00	4.0	16.50	1.52
975	923	Fischbach	–63.1	55½	6⅜	18⅝	–7.07	def	0.07	none	0.0	25.99	0.72
193	152	Fleet/Norstar Finl	123.0	30⅝	10⅛	26⅝	2.33	11.4	0.95	1.28	4.8	15.98	1.67
854	771	Fleetwood Enterprises	–16.9	33½	14	22⅛	2.30	9.6	0.34	0.64	2.9	15.02	1.47
707	660	Fleming Cos	13.0	45⅞	22	32⅝	1.76	18.5	0.09	1.00	3.1	19.58	1.67
1000	899	Florida Federal S&L	–85.7	22⅝	2	2¼	–7.90	def	0.04	none	0.0	11.93	0.18
454	509	Florida Natl Banks	56.5	29¼	10¾	18	1.42	12.7	0.64	0.52	2.9	17.16	1.05
370	347	Florida Progress	71.6	47	18¾	34¾	3.43	10.1	0.88	2.56	7.4	24.77	1.40
233	145	Flowers Industries	105.3	22	7¾	18¼	1.18	15.4	0.85	0.50	2.7	5.74	3.18
715	847	Fluor	11.6	23⅜	11	19¼	2.15	9.0	0.32	0.08	0.4	6.74	2.86
42	10	FMC	276.2	60⅜	7⅜	30⅝	2.93	10.5	0.32	none	0.0	–10.12	NE
10	12	Food Lion	529.0	14⅝	1½	10¾	0.33	32.6	0.99	0.06	0.6	1.05	10.24
79	112	Foodarama Supermkts	201.3	32⅞	6¼	29	3.67	7.9	0.07	none	0.0	23.55	1.23
NR	NR	Foodmaker	NA	19¼	5¾	18⅝	1.44	12.9	0.29	none	0.0	8.99	2.07
54	27	Ford Motor	250.4	56⅜	11	49½	10.41	4.8	0.30	2.40	4.8	37.56	1.32
626	579	Foremost Corp of Amer	26.6	43⅞	21¼	34½	2.66	13.0	0.94	1.08	3.1	22.92	1.51
NR	NR	Formica	NA	18⅛	4½	14½	2.52	5.8	0.43	none	0.0	7.39	1.96
781	892	LB Foster	–2.0	8⅛	1⅞	6⅛	0.96	6.4	0.24	none	0.0	3.58	1.71
826	736	Foster Wheeler	–10.5	25	9½	13⅞	0.20	69.4	0.45	0.44	3.2	12.79	1.08
870	866	Foxboro	–20.6	40½	18⅜	28	–5.45	def	0.66	0.40	1.4	15.30	1.83
486	411	FPL Group	52.8	38	17⅝	30¾	3.31	9.3	0.84	2.20	7.2	23.82	1.29
575	611	Freeport-McMoRan	38.5	31⅜	13½	27⅞	4.08	6.8	0.32	2.88[d]	10.3[d]	12.77	2.18
NR	NR	Fruehauf	NA	8⅜	1⅞	3⅝	–5.95	def	0.02	none	0.0	–6.74	NE
NR	NR	Fruit of the Loom	NA	9¾	3⅞	4¾	0.81	5.9	0.30	none	0.0	3.14	1.51
637	166	HB Fuller	23.3	48½	11¾	24½	2.45	10.0	0.35	0.56	2.3	17.02	1.44
211	64	Fuqua Industries	115.0	38⅜	10	28¾	5.33	5.4	0.67	0.32	1.1	15.22	1.89
14	9	GAF	459.4	69½	7½	46½	3.08	15.1	1.38	0.10	0.2	18.34	2.54
390	418	Gannett	67.8	56¼	16¾	33	2.18	15.1	1.65	1.08	3.3	9.94	3.32
7	22	Gap	588.1	77⅞	4½	36⅛	1.55	20.5	1.10	0.60	1.7	7.61	4.75
466	524	GATX	55.4	52⅜	25¾	50½	4.94	10.2	0.80	1.80	3.6	25.16	2.01
NR	NR	Gaylord Container	NA	22	12¾	13	3.06	4.2	0.30	none	0.0	3.27	3.98
218	210	Geico	111.6	136¾	48⅞	123	10.20	12.1	1.13	1.64	1.3	39.18	3.14
512	165	GenCorp	47.6	40	9¾	18¼	7.41	2.5	0.32	0.60	3.3	–3.06	NE
346	245	General Cinema	75.6	31¼	8½	19¾	1.37	14.4	0.66	0.40	2.0	6.96	2.84
867	NR	General Development	–20.2[a]	26⅝	8⅛	12⅜	1.88	6.6	0.21	none	0.0	20.62	0.60
837	544	General Dynamics	–13.5	89¼	42	50¼	8.66	5.8	0.22	1.00	2.0	38.19	1.32
534	333	General Electric	45.0	66⅜	24⅛	42½	3.14	13.5	1.00	1.64	3.9	18.25	2.33
591	69	General Host	34.6	25⅝	5½	8⅜	–0.11	def	0.39	0.28	3.3	9.98	0.84
906	[illegible]	General Instrument	–33.8	47⅞	12¾	21½	2.47	8.7	0.60	0.50	2.3	16.45	1.31
285	[illegible]	General Mills	90.4[c]	62⅛	20⅞	49¾	5.91	8.4	0.79	1.88	3.8	7.75	6.42
745	[illegible]	General Motors	6.6	94⅛	50	79¼	11.75	6.7	0.23	5.00	6.3	92.75	0.85
306	[illegible]	General Motors EDS	85.8[b]	51	18¼	39⅜	3.15	12.5	0.44	0.68	1.7	8.64	4.56
495	[illegible]	Hughes Electronics	51.0[a]	40⅝	16⅜	28⅞	1.89	15.3	0.35	0.44	1.5	54.04	0.53
20	[illegible]	[illegible]al Public Utils	380.6	38½	7¼	37¼	4.90	7.6	0.84	1.80	4.8	31.48	1.18
464	[illegible]	[illegible]	55.5	69½	23⅛	53¼	4.75	11.2	1.74	1.20	2.3	26.21	2.03
839	[illegible]	[illegible]nal	–13.8	61¼	33¼	43¾	0.92	47.6	0.73	1.80	4.1	33.02	1.32
909	[illegible]	[illegible]	–34.9	8⅜	2⅜	5⅛	0.61	8.4	0.24	none	0.0	5.08	1.01
NR	NR	[illegible]alyte Group	NA	11¾	8	8	5.98	1.3	0.22	none	0.0	NA	NA
[illegible]	405	[illegible]	75.6	44⅜	16	35⅛	2.23	15.8	0.95	1.04	3.0	9.84	3.57

[illegible]xcept as indicated [illegible] are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to stock. Range is for peri[illegible] change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received in a spin[illegible]. Does not inclu[illegible] dends given in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equity. def: Deficit.

Sources: Forbes, William O'Neill & Co.

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
JR	NR	Georgia Gulf	NA	79¾	19½	70½	$12.12	5.8	0.95	$1.20	1.7%	$10.79	6.53
88	622	Georgia-Pacific	35.4%	52¾	18	33½	4.48	7.5	0.37	1.40	4.2	25.59	1.31
79	293	Gerber Products	91.9	63	20½	54⅜	2.36	23.0	1.07	1.48	2.7	16.48	3.30
83	75	Getty Petroleum	197.8	30⅜	5¼	15	2.14	7.0	0.14	0.20	1.3	7.12	2.11
41	55	Giant Food	280.1	25⅞	4⅞	21½	1.43	15.1	0.46	0.40	1.9	5.91	3.64
95	898	Gibraltar Financial	–79.5	13⅝	2⅛	2⅛	–1.97	def	0.03	none	0.0	9.56	0.22
05	140	Gillette	172.5	49	10¾	33⅛	2.33	14.2	1.07	0.86	2.6	5.20	6.37
31	NR	PH Glatfelter	343.6	37¾	8⅜	36⅞	3.07	12.0	1.62	0.70	1.9	11.51	3.20
34	146	GlenFed	105.1	33½	6¾	20	5.17	3.9	0.24	1.20	6.0	35.98	0.56
44	188	Golden West Finl	101.7	46¾	7⅜	29¾	4.14	7.2	0.70	0.28	0.9	25.28	1.18
JR	NR	Goldome	NA	7¾	2⅜	2⅜	–2.41	def	0.05	none	0.0	16.08	0.15
03	702	BF Goodrich	65.4	65	24⅝	50¼	6.45	7.8	0.53	1.72	3.4	36.51	1.38
30	565	Goodyear	60.5	76½	23	48¾	8.08	6.0	0.26	1.80	3.7	32.19	1.51
85	717	Gordon Jewelry	–24.0	22½	9⅞	16¼	–1.59	def	0.35	0.52	3.2	21.44	0.76
11	664	WR Grace	12.2	37⅜	17¾	25⅜	2.33	10.9	0.39	1.40	5.5	17.31	1.47
74	330	WW Grainger	70.3	71¾	23½	52⅜	3.83	13.7	0.97	0.88	1.7	20.97	2.50
24	346	Gt Am First Savings	46.3	25	5½	9⅞	1.72	5.7	0.16	0.60	6.1	25.93	0.38
53	308	Great American Mgmt	4.5	17½	11¼	17½	0.82	21.3	0.09	none	0.0	19.71	0.89
56	30	Great A&P Tea	245.9	48⅛	11⅝	42⅜	3.04	13.9	0.17	0.60	1.4	22.32	1.90
53	NR	Great Lakes Chemical	56.8	77	24	53⅛	5.37	9.9	1.68	0.72	1.4	22.57	2.35
59	96	Gt Northern Nekoosa	73.6	60½	15½	35	5.69	6.2	0.55	1.12	3.2	22.62	1.55
83	610	Gt Western Financial	69.0	24⅜	6⅝	14⅞	1.55	9.6	0.61	0.76	5.1	14.87	1.00
94	542	Greyhound	14.8	46	18⅝	29⅛	0.67	43.5	0.38	1.32	4.5	24.35	1.20
JR	NR	Grossman's	NA	11½	4	5½	0.48	11.5	0.13	none	0.0	3.37	1.63
74	700	Grow Group	0.3	15⅞	5½	10¼	–0.25	def	0.29	none	0.0	4.49	2.28
49	742	Grumman	–16.5	36⅜	17⅛	20¼	0.47	43.1	0.19	1.00	4.9	15.17	1.33
21	608	GTE	46.6	44¾	23¼	42¾	3.61	11.8	0.86	2.68	6.3	23.86	1.79
62	239	Guilford Mills	2.6	39½	16	25⅛	2.69	9.3	0.42	0.80	3.2	19.55	1.29
31	39	Gulf & Western	149.8	46¾	12⅝	37⅝	3.06	12.3	0.87	0.70	1.9	17.40	2.16
99	897	Gulf States Utils	–31.4	16½	4¾	8¾	0.75	11.7	0.63	none	0.0	18.41	0.48
18	NR	Hadson	–8.6	10⅛	2	4	0.22	18.2	0.22	none	0.0	4.40	0.91
13	827	Halliburton	–36.8	44	17⅜	25½	1.02	25.0	0.60	1.00	3.9	19.77	1.29
67	NR	Handleman	132.8	25⅜	7⅛	20½	1.61	12.7	0.78	1.00	4.9	7.60	2.70
59	809	Handy & Harman	–3.5	28	13¼	17⅛	0.51	33.6	0.37	0.66	3.9	8.35	2.05
12	NR	MA Hanna	29.1	22½	10½	17¾	3.33	5.3	0.38	0.40	2.3	14.51	1.22
66	52	Hannaford Bros	237.0	54¾	11	45⅞	2.93	15.7	0.36	0.64	1.4	15.07	3.04
71	81	Hanover Insurance	94.6	38⅜	9½	27	5.70	4.7	0.36	0.36	1.3	25.68	1.05
JR	NR	Harcourt Brace	NA	13¼	3¾	8¾	0.44	19.9	0.31	none	0.0	–24.91	NE
JR	NR	Harley-Davidson	NA	29⅞	7¼	22⅜	3.37	6.6	0.26	none	0.0	9.10	2.46
JR	NR	Harman International	NA	17½	6⅜	15	1.48	10.1	0.27	none	0.0	8.42	1.78
67	156	Harnischfeger Inds	72.1	29¾	7⅜	14⅝	0.99	14.8	0.39	0.20	1.4	12.32	1.19
10	843	Harris Corp	–35.8	42¾	22	25¾	1.71	15.1	0.50	0.88	3.4	24.94	1.03
92	290	Harsco	67.4	39⅜	12⅝	26½	2.51	10.6	0.55	1.20	4.5	16.34	1.62
24	NR	Hartford Steam Boiler	366.7	36⅝	6¼	31½	3.37	9.3	1.45	1.40	4.4	10.65	2.96
10	596	Hartmarx	12.4	34¾	15⅝	24¼	1.98	12.2	0.39	1.10	4.5	18.26	1.33
95	11	Hasbro	182.4	30⅞	4⅝	15¼	0.99	15.4	0.60	0.12	0.8	11.52	1.32
16	360	Hawaiian Electric	83.3	35½	15⅝	28¾	2.43	11.8	0.71	2.04	7.1	23.07	1.25
07	NR	Healthco International	63.9[a]	23¾	10⅞	19½	1.85	10.5	0.34	none	0.0	17.27	1.13
13	552	Hechinger	47.4	27¼	9	16¾	1.19	14.1	0.69	0.06	0.4	8.87	1.89
75	119	HJ Heinz	128.9	51¾	16	43½	3.02	14.4	1.03	1.44	3.3	12.45	3.49
61	NR	Helene Curtis Inds	20.4	42½	12¾	37¼	2.98	12.5	0.32	0.60	1.6	22.56	1.65
JR	NR	Henley Group	NA	30¾	17¼	21¼	–2.19	def	0.71	none	0.0	20.10	1.06
JR	NR	Henley Manufacturing	NA	61	17½	55½	NA	NA	0.99	none	0.0	35.51	1.56
44	430	Hercules	22.4	73½	27¼	43¾	3.38	12.9	0.78	2.24	5.1	44.88	0.97
57	130	Hershey Foods	137.1	37¾	9½	25	2.31	10.8	1.04	0.70	2.8	9.23	2.71
32	563	Hewlett-Packard	8.3	73⅝	28¾	45⅞	3.36	13.7	1.16	0.34	0.7	19.52	2.35
88	NR	Highland Superstores	–73.0[a]	39¼	5½	7¼	0.38	19.1	0.16	none	0.0	7.02	1.03
73	181	Hillenbrand Inds	130.0	35¾	8½	28¾	1.86	15.5	1.29	0.40	1.4	8.27	3.48
JR	NR	Hills Dept Stores	NA	12⅝	5¼	7⅞	1.09	14.3	0.09	none	0.0	–0.30	NE
22	459	Hilton Hotels	61.4	54¾	22¾	46	3.16	14.6	2.46	1.00	2.2	15.79	2.91
JR	NR	Himont	NA	54¼	23	38½	5.07	7.6	1.56	1.40	3.6	16.59	2.32
46	871	Holiday	–48.7[e]	83⅞	11⅝	24⅜	4.63	5.3	0.40	none	0.0	–29.36	NE

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Sources: Forbes; William O'Neill & Co.

WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Rec pric boo val
16	185	Holly Corp	425.9%	18⅞	3¼	18	$2.76	6.5	0.39	$0.06	0.3%	$5.58	3.2
61	292	Holly Farms	243.1	55¼	14⅝	52¾	3.39	15.6	0.56	1.32	2.5	21.34	2.4
433	265	Home Depot	60.0	30	7	28	1.00	19.3	0.75	0.12	0.4	6.49	4.3
328	409	Home Federal S&L	79.5	38⅝	11¾	25⅛	5.00	5.0	0.35	0.20	0.8	40.31	0.6
958	NR	Home Group	–54.6[a]	31½	10½	11⅛	2.45	4.5	0.13	0.20	1.8	26.36	0.4
NR	NR	Home Shopping	NA	47	3	4½	0.21	21.4	0.54	none	0.0	1.36	3.3
917	350	Homestead Financial	–37.5	20½	3½	4½	–0.46	def	0.11	0.25	5.6	12.73	0.3
443	504	HON Industries	58.6	23	7⅝	17¼	1.24	13.9	0.56	0.40	2.3	6.66	2.5
813	591	Honeywell	–7.5	90½	46⅜	60⅛	3.17	19.0	0.35	2.10	3.5	52.80	1.1
129	129	Geo A Hormel	150.0	29⅜	6⅜	19⅜	1.35	12.3	0.32	0.44	2.3	9.72	1.9
962	NR	Horn & Hardart	–56.5	21¼	5½	8⅛	–2.16	def	0.24	none	0.0	7.50	1.0
681	823	Hospital Corp	16.1	52¼	23⅝	45⅞	3.28	14.0	0.81	0.72	1.6	23.60	1.9
310	358	Household Intl	84.6	62½	24	56¾	6.39	8.9	0.46	2.14	3.8	28.23	2.0
535	513	Houston Industries	44.5	39⅜	17⅝	28	3.58	7.8	0.92	2.96	10.6	28.33	0.9
201	354	Hubbell	119.8	41⅞	14½	34¾	2.69	12.9	1.48	1.12	3.2	13.77	2.5
NR	NR	Hudson Foods	NA	21¼	4⅞	9⅞	0.30	32.9	0.24	0.12	1.2	5.61	1.7
750	NR	Hughes Supply	4.8	20¼	11½	17⅛	2.46	8.6	0.17	0.32	1.9	17.23	0.9
749	810	Humana	5.1	36¾	16⅛	23	2.30	10.0	0.65	0.92	4.0	10.36	2.2
231	199	Huntington Bcshs	105.8	25	7¾	18¼	1.87	9.7	0.81	0.74	4.1	13.62	1.3
NR	NR	IBF	NA	20¼	10¾	13¼	1.19	11.1	0.07	0.60	4.5	9.66	1.3
116	71	IC Industries	160.7	41¼	10½	31⅛	2.54	12.3	0.90	0.96	3.1	14.67	2.1
727	345	ICH	8.9	32⅝	4⅛	5⅛	–0.09	def	0.09	none	0.0	11.89	0.4
1006	928	Ideal Basic Inds	–92.9	26	1⅛	1⅝	–0.04	def	1.26	none	0.0	0.11	14.7
429	NR	IE Industries	60.5	27¾	14¼	23⅞	2.54	9.4	0.79	2.04	8.5	18.63	1.2
799	701	Illinois Power	–4.4	32	16½	19⅛	2.19	8.7	1.04	2.64	13.8	26.86	0.7
153	79	Illinois Tool Works	138.9	49½	10⅝	32⅝	2.51	13.0	0.90	0.48	1.5	11.75	2.7
NR	NR	IMC Fertilizer Group	NA	43¼	22½	37¾	4.31	8.8	0.88	0.87	2.3	22.38	1.6
688	824	Imperial Corp of Am	15.4	19	5⅛	10⅛	2.78	3.6	0.13	0.60	5.9	18.57	0.5
269	581	Inco	94.9	35⅛	8⅝	28½	5.30	5.4	1.05	0.80	2.8	11.31	2.5
607	NR	Independent Insurance	30.6	41½	19¾	32	3.26	9.8	0.44	1.52	4.8	42.37	0.7
127	NR	Indiana National	151.7	35⅝	9⅞	26	2.67	9.7	0.87	1.08	4.2	20.36	1.2
491	324	Ingersoll-Rand	51.6	45¾	14¼	31¾	2.73	11.6	0.56	1.04	3.3	21.92	1.4
NR	NR	Ingles Markets	NA	13⅜	6⅝	9	0.71	12.7	0.21	0.22	2.4	5.74	1.5
640	757	Inland Steel Inds	22.6	40½	14½	38	6.32	6.0	0.32	1.00	2.6	35.76	1.0
947	868	Inspiration Resource	–50.0	12¼	3¾	5⅝	0.55	10.2	0.27	none	0.0	5.84	0.9
943	769	Integrated Resources	–47.6	40¼	11⅞	13⅝	2.04	6.7	0.07	none	0.0	30.17	0.4
860	372	Intel	–18.8	41⅞	10⅞	22¾	2.47	9.2	1.41	none	0.0	7.76	2.9
283	689	Interco	90.6	73⅝	27½	63⅜	3.71	17.1	0.77	1.72	2.7	32.37	1.9
726	435	Intergraph	9.1	40½	15¼	21	1.55	13.5	1.52	none	0.0	10.06	2.0
319	258	Interlake	82.1[c]	55	20½	39½	4.57	8.6	0.48	1.50	3.8	25.56	1.5
451	190	Intermark	57.6	16½	6⅝	13	1.54	8.4	0.11	0.12	0.9	10.50	1.2
805	638	IBM	–5.3	175⅞	99	115½	8.77	13.2	1.21	4.40	3.8	64.09	1.8
386	489	Intl Flavors & Frags	68.3	58	22⅞	45⅞	3.34	13.7	2.07	1.92	4.2	17.47	2.6
806	682	Intl Minerals & Chem	–5.5	53	25	41	3.48	11.8	0.86	1.00	2.4	33.56	1.2
527	605	Intl Multifoods	45.8	39¾	15⅜	30⅝	2.41	12.7	0.25	1.18	3.9	24.02	1.2
529	501	International Paper	45.3	57⅞	22⅛	42⅞	5.90	7.3	0.53	1.30	3.0	36.17	1.1
112	183	Interpublic Group	163.5	43½	12¼	34¼	2.54	13.5	0.72	0.80	2.3	12.67	2.7
NR	NR	InterTAN	NA	36⅛	10	35⅜	2.55	13.9	0.54	none	0.0	18.45	1.9
438	4[illegible]	Iowa-Illinois G&E	59.7	47	21½	39⅛	4.06	9.6	1.08	3.18	8.1	30.32	1.2
624	53[illegible]	Iowa Resources	27.0	27½	12½	18¼	1.52	12.0	1.19	1.66	9.1	16.00	1.1
417	398	[illegible]palco Enterprises	61.8	29½	13	22¾	2.55	8.9	1.42	1.64	7.2	17.06	1.3
91	192	[illegible]rving Bank	186.0	78½	23⅛	75⅝	3.28	23.1	0.60	2.42	3.2	40.74	1.8
62	NR	[illegible]tel	242.5	26⅞	2¾	17⅛	0.71	24.1	0.30	none	0.0	11.81	1.4
737	494	[illegible]T	7.3	66⅜	21¾	48	7.45	6.4	0.31	1.48	3.1	54.04	0.8
182	N[illegible]	[illegible]acobs Engineering	127.3	23½	4⅝	19⅜	1.35	14.4	NA	none	0.0	6.58	2.9
725	60[illegible]	James River Corp Va	9.2	43¾	15¾	25¾	2.44	10.6	0.39	0.48	1.9	24.56	1.0
760	51[illegible]	[illegible]eway	3.0	16¼	5⅞	8½	0.67	12.1	0.15	0.08	0.9	8.58	0.9
303	226	[illegible]ffersen-Pilot	86.3	42½	15⅞	31¼	2.23	14.0	1.01	1.28	4.1	31.60	0.9
35	56	[illegible]ffersen Standard	311.8	39¼	3¾	26	3.55	7.3	0.82	0.16	0.6	5.64	4.6
[illegible]R	NR	[illegible]ohnson	NA	13¾	5	7⅛	0.67	10.6	0.24	none	0.0	3.48	2.0
[illegible]	746	Jer[illegible]	13.6	26⅜	8⅞	15⅛	0.92	16.4	0.45	0.16	1.1	11.48	1.3
[illegible]	471	John[illegible] S Johnson	97.9	105⅜	28	80⅞	5.56	14.5	1.57	2.00	2.5	20.25	3.9

[illegible]ot as indicated, pr[illegible]m Dec 31, 1983 to Nov. 16, 1988 NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to st[illegible] compa[illegible]ge is for period s[illegible] a Three-year price change b Four-year price change c Price change does not reflect the value of shares received [illegible] spinoff [illegible]es not include s[illegible]iven in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equ[illegible] def Deficit

Sources: Forbes; William O'Neill & C[illegible]

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
89	498	Johnson Controls	34.9%	40	18¾	32⅝	$2.83	11.5	0.39	$1.16	3.6%	$20.88	1.56
12	779	Earle M Jorgensen	–6.8	30½	17¾	27¼	1.51	18.0	0.38	1.00	3.7	22.67	1.20
00	252	Jostens	86.7	25	7¾	17½	2.38	7.4	1.11	0.64	3.7	4.92	3.56
29	NR	JWP	150.0	33	6⅜	22½	2.08	10.8	0.35	none	0.0	9.37	2.40
54	320	K mart	52.8	48⅜	17⅞	33⅞	3.62	9.4	0.26	1.32	3.9	22.08	1.53
32	182	Kaman	45.1	21⅜	7¾	13¾	1.51	9.1	0.32	0.44	3.2	8.97	1.53
98	547	Kansas City P&L	66.0	32¼	14¼	31⅛	3.44	9.0	1.31	2.44	7.8	25.33	1.23
08	751	Kansas City Southern	–34.6	79¾	32½	37⅝	1.73	21.7	0.76	1.08	2.9	29.27	1.29
67	696	Kansas Gas & Elec	19.6	25⅝	9⅝	20⅝	2.02	10.2	1.38	1.60	7.8	19.21	1.07
61	302	Kansas Power & Light	55.8	32½	13⅞	23⅜	2.45	9.5	0.67	1.72	7.4	16.94	1.38
39	279	Kaufman & Broad	59.4	19¼	4¾	10⅝	1.62	6.6	0.16	0.32	3.0	11.22	0.95
47	40	Kellogg	261.4	68¾	13½	58½	3.75	15.6	1.71	1.52	2.6	9.82	5.96
15	158	Kellwood	161.2	41	7¼	24⅜	2.68	9.1	0.39	0.72	3.0	14.44	1.69
96	33	Kelly Services	182.3	49⅜	10⅛	33½	2.47	13.6	0.64	0.64	1.9	7.68	4.36
50	357	Kemper	74.9	38¾	9¾	23¼	3.41	6.8	0.36	0.72	3.1	26.38	0.88
11	NR	Kennametal	–6.3	40¼	17½	29½	2.47	11.9	0.69	1.08	3.7	18.07	1.63
77	NR	Kentucky Central Life	69.6	21¼	5⅞	11⅞	1.94	6.1	0.30	0.80	6.7	19.46	0.61
08	399	Kentucky Utilities	63.7	24⅛	10¼	18⅝	1.96	9.5	1.27	1.34	7.2	12.32	1.51
49	817	Kerr Glass Mfg	–50.4	18½	8	8½	–0.59	def	0.11	0.44	5.2	10.49	0.81
87	678	Kerr-McGee	15.5	46⅞	23½	35⅜	1.89	18.7	0.63	1.10	3.1	28.25	1.25
19	83	KeyCorp	61.7	31	11	20¾	2.39	8.7	0.60	1.20	5.8	19.58	1.06
43	53	Kimball International	43.5	26	9⅞	15¼	1.53	10.0	0.61	0.52	3.4	10.60	1.44
52	116	Kimberly-Clark	139.1	65¾	19¾	55	4.52	12.2	0.84	1.60	2.9	19.61	2.80
02	NR	Kinder-Care	–32.5	19⅛	6⅞	6⅞	0.62	11.1	0.49	0.08	1.2	6.15	1.12
59	NR	KN Energy	3.1[a]	24¼	11½	16⅝	2.32	7.2	0.45	1.00	6.0	14.55	1.14
91	458	Knight-Ridder	67.5	61¼	21¼	44⅜	2.80	15.8	1.22	1.12	2.5	15.85	2.80
28	264	Kraft	359.3[c]	103⅞	21⅝	102	8.94	11.4	1.20	2.04	2.0	14.47	7.05
JR	607	Kroger	NA	11	7¼	8½	2.39	3.6	0.04	none	0.0	12.84	0.66
81	NR	La-Z-Boy Chair	37.3	24	7½	15⅞	1.46	10.9	0.56	0.48	3.0	9.92	1.60
01	247	Laclede Gas	86.4	40½	15⅝	29¼	3.14	9.3	0.47	2.30	7.9	21.94	1.33
05	759	Lafarge	48.9	20⅜	6¾	17⅛	1.89	9.1	0.58	0.40	2.3	11.64	1.47
69	NR	Lancaster Colony	39.4	23⅝	10	18¼	1.66	11.0	0.50	0.72	3.9	10.80	1.69
26	138	Leggett & Platt	80.0	36⅞	10⅜	24	2.21	10.9	0.52	0.64	2.7	13.01	1.84
JR	NR	Leslie Fay Cos	NA	17¾	4¼	8¾	1.24	7.1	0.26	none	0.0	5.86	1.49
84	179	Eli Lilly	193.7	107¾	26½	85	5.05	16.8	2.98	2.30	2.7	21.78	3.90
81	16	Limited	200.0	52⅞	5⅛	24½	1.04	23.6	1.18	0.24	1.0	4.08	6.00
93	NR	Lincoln Electric	15.0	240	170	230	31.94	7.2	0.49	6.40	2.8	194.75	1.18
50	337	Lincoln National	42.5	62¾	29	46½	2.57	18.1	0.28	2.48	5.3	47.01	0.99
82	483	Litton Industries	–2.3	108¼	56¼	69	6.33	10.9	0.36	none	0.0	45.83	1.51
46	8	Liz Claiborne	264.7	39⅛	3⅛	15½	1.22	12.7	1.19	0.18	1.2	4.10	3.78
78	465	Lockheed	–1.6	61½	28¾	39⅜	10.69	3.7	0.22	1.60	4.1	33.31	1.18
65	NR	Loctite	55.4	39	13½	32¼	2.50	12.9	1.35	0.88	2.7	11.44	2.82
82	50	Loews	199.1	96¼	23½	74⅜	12.22	6.1	0.56	1.00	1.3	42.56	1.75
68	NR	Lomas Financial	–20.2	39¼	12⅝	13½	–1.79	def	0.32	1.40	10.4	13.49	1.00
41	841	Lone Star Industries	6.7	41¾	15	30	1.67	18.0	1.03	1.90	6.3	35.86	0.84
83	NR	Lone Star Tech	52.9[a]	24⅜	6⅛	13	–0.04	def	0.42	none	0.0	14.53	0.89
89	891	Long Island Lighting	51.8	14⅝	3¾	15¾	2.33	6.8	0.82	none	0.0	29.58	0.53
64	410	Longs Drug Stores	40.4	41	17	34⅛	2.56	12.9	0.37	0.88	2.6	14.59	2.34
50	274	Longview Fibre	140.0	77½	20¼	63	8.35	7.5	1.11	1.80	2.9	25.31	2.49
67	529	Loral	39.9	49¼	18½	34⅝	3.29	10.5	0.57	0.72	2.1	17.31	2.00
JR	NR	Lorimar Telepictures	NA	32⅝	6⅝	10¾	–6.19	def	0.83	none	0.0	6.44	1.67
90	707	Louisiana Land	15.2	43⅛	22¼	31¼	–2.06	def	1.28	1.00	3.2	18.84	1.66
76	685	Louisiana-Pacific	17.5	39¾	15½	26½	3.53	7.5	0.56	0.92	3.5	27.24	0.97
26	473	Louisville G&E	46.0	44⅜	22⅝	34½	3.63	9.5	1.09	2.72	7.9	26.93	1.28
74	760	Lowe's Cos	–3.9	41½	15¼	21½	1.52	14.1	0.33	0.48	2.2	14.80	1.45
01	915	LTV	–85.7	19⅞	1⅛	2⅝	–8.70	def	0.04	none	0.0	–16.97	NE
87	546	Lubrizol	58.3	42⅜	18¼	34⅝	1.80	19.2	1.22	1.36	3.9	15.96	2.17
17	69	Lukens	158.8	39⅛	6¾	24⅜	3.56	6.8	0.36	0.80	3.3	17.85	1.37
21	NR	LVI Group	–8.7	8⅝	1¾	2⅝	–0.20	def	0.11	none	0.0	1.99	1.32
59	901	M/A-Com	–54.7	23½	7¼	9	0.65	13.8	0.58	0.24	2.7	8.55	1.05
33	855	Mack Trucks	–44.1	22⅜	9⅛	11⅞	0.17	69.9	0.17	none	0.0	16.34	0.73
JR	NR	Magma Copper	NA	14⅛	3⅝	6	–0.27	def	0.44	none	0.0	6.78	0.89

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WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price book value
NR	NR	MAI [illegible]	NA	21⅛	8¾	11	$1.62	6.8	0.39	none	0.0%	$5.34	2.06
396	326	[illegible]	66.1%	25½	7	13¾	–0.10	def	0.96	$0.13	0.9	4.78	2.88
890	838	[illegible]ver	–26.6	57¾	18¾	27⅞	11.54	2.4	0.17	3.28	11.8	42.01	0.66
146	114	[illegible]	142.2	53½	14⅝	44½	3.06	14.5	0.76	1.84	4.1	33.25	1.34
1002	909	[illegible]	–86.4	13⅝	1½	1½	5.36	0.3	0.02	none	0.0	38.86	0.04
223	[illegible]	[illegible]	109.2	66⅝	21	51	4.99	10.2	0.56	1.00	2.0	25.73	1.98
40	[illegible]	[illegible] Laboratories	292.2	41½	3½	19	1.05	18.1	3.63	0.36	1.9	2.55	7.45
22	[illegible]	[illegible] Industries	371.4	19½	1¾	10⅛	2.01	5.0	0.25	none	0.0	8.56	1.18
224	[illegible]	[illegible]riott	108.8	43¾	11¾	29¾	1.87	15.9	0.49	0.20	0.7	6.82	4.36
186	[illegible]	Marsh & McLennan Cos	126.1	76¾	17⅞	56¼	4.09	13.8	1.81	2.50	4.4	10.72	5.25
[illegible]	642	Marsh Supermarkets	97.1	16¾	5⅝	15	0.98	15.4	0.13	0.32	2.1	7.31	2.05
335	212	Marshall & Ilsley	78.2	38¾	13⅛	29¼	3.50	8.4	0.94	0.96	3.3	21.63	1.35
795	NR	Marshall Industries	–3.9	25	7⅞	15¼	2.27	6.7	0.30	none	0.0	12.29	1.24
353	289	Martin Marietta	74.7	56½	20⅛	41⅝	6.69	6.2	0.40	1.10	2.6	17.16	2.43
520	401	Masco	46.7c	40⅞	11⅜	24¾	1.97	12.6	1.44	0.48	1.9	10.34	2.39
27	20	Masco Industries	359.4b	18¾	1½	10⅝	0.58	18.3	0.58	none	0.0	4.38	2.43
288	890	Mattel	90.0	17⅛	4⅞	9½	–1.87	def	0.48	none	0.0	2.19	4.34
1003	782	Maxicare Health	–87.5	28½	½	1	–9.41	def	0.02	none	0.0	–0.87	NE
NR	NR	Maxus Energy	NA	16	6	6⅞	–1.84	def	1.03	none	0.0	4.03	1.71
275	338	May Dept Stores	93.3	50⅞	15¼	34⅝	3.26	10.6	0.49	1.28	3.7	18.26	1.90
3	3	Mayfair Super Markets	1115.3	26¼	⅞	19¼	1.53	12.6	0.26	none	0.0	3.86	4.99
459	237	Maytag	56.1	32⅜	9⅛	20	1.79	11.2	0.82	0.90	4.5	5.43	3.68
472	493	MCA	54.9	64½	22⅞	43⅞	1.52	28.9	1.17	0.68	1.5	21.42	2.05
358	614	McCormick & Co	73.6	29	14⅛	26¼	1.47	17.9	0.53	0.56	2.1	12.02	2.18
921	802	McDermott Intl	–38.2	33⅛	13	15⅜	–0.76	def	0.25	1.00	6.5	19.95	0.77
208	174	McDonald's	116.0	61⅛	18⅛	45⅛	3.31	13.6	1.59	0.56	1.2	15.44	2.92
616	559	McDonnell Douglas	28.3	91⅛	47⅝	76	7.66	9.9	0.21	2.56	3.4	76.71	[illegible]
579	534	McGraw-Hill	37.6	84½	34	58⅛	3.71	15.7	1.55	1.84	3.2	17.11	3.40
531	879	MCI Communications	45.2	24	5⅛	20⅞	0.91	22.9	1.06	none	0.0	4.73	4.41
418	577	McKesson	61.8	40⅛	16¼	32¼	2.23	14.5	0.19	1.44	4.5	16.65	1.94
1013	929	MCorp	–97.2	29¼	¼	11/16	–14.24	def	0.02	none	0.0	16.53	0.05
990	874	MDC Holdings	–74.0	22½	2⅞	3⅛	–2.96	def	0.08	none	0.0	12.17	0.26
227	92	Mead	107.7	49½	13⅝	40¼	5.24	7.7	0.57	0.76	1.9	19.85	2.03
597	NR	Medco Containment	33.2b	18¾	5¾	12¼	0.52	23.6	1.03	0.04	0.3	5.32	2.30
132	101	Media General	149.3	50½	13	35⅜	1.74	20.3	1.35	0.40	1.1	12.34	2.87
305	NR	Medtronic	85.8	108½	24½	77⅛	6.78	11.1	1.44	1.20	1.6	29.72	2.60
951	783	Mellon Bank	–50.5	72½	22¾	25¼	–13.55	def	0.23	1.40	5.5	32.06	0.79
249	497	Melville	99.6	84	30¾	69⅝	5.72	12.2	0.58	2.10	3.0	26.83	2.60
557	560	Mercantile Bancorp	41.6	37⅛	15¾	25¼	0.73	34.6	0.60	1.40	5.5	26.41	0.96
302	299	Mercantile Stores	86.4	53⅜	16⅛	41	3.56	11.5	0.69	0.80	2.0	23.68	1.73
52	42	Merck	256.0	74⅜	13	53⅝	2.86	18.7	3.64	1.48	2.8	5.37	9.99
574	371	Meredith	38.6	43¼	19½	30½	1.89	16.1	0.80	0.64	2.1	18.90	1.61
281	382	Meridian Bancorp	91.3	27⅝	9½	20¼	1.88	10.8	0.71	1.10	5.4	15.61	1.30
973	887	Meritor Financial	–62.2	13⅛	3⅞	4¼	–3.62	def	0.09	none	0.0	16.23	0.26
858	829	Merrill Lynch	–18.4	46¾	19½	26⅛	1.73	15.1	0.27	1.00	3.8	29.61	[illegible]
NR	NR	Fred Meyer	NA	17⅞	9½	15¼	1.42	10.7	0.17	none	0.0	9.88	1.54
NR	NR	MGM/UA Commun	NA	19	5¾	12	–0.97	def	0.89	none	0.0	5.33	2.25
NR	NR	Michigan Consolidated	NA	40	36¼	36½	4.40	8.3	0.31	3.15	8.6	23.72	1.54
94	143	Michigan National	183.6	52¼	10¾	47½	5.91	8.0	0.70	2.00	4.2	34.34	1.38
NR	NR	Microsoft	NA	79¼	10½	46¼	2.49	18.6	3.72	none	0.0	7.00	6.61
684	[illegible]	Middle South Utils	15.9	16¼	7¾	15½	1.60	9.7	0.91	0.80	5.2	22.13	0.70
437	[illegible]	Midlantic	59.8	52⅛	21¼	37¾	5.28	7.1	0.82	1.64	4.3	30.66	1.23
508	5[illegible]	[illegible]idwest Energy	48.1	26	11	19¼	1.94	9.9	0.73	1.56	8.1	12.11	1.59
728	28[illegible]	[illegible]an Miller	8.8	31	13¾	19½	1.80	10.8	0.64	0.52	2.7	10.16	1.92
149	NR	[illegible]	140.4	46½	12⅞	34¼	1.92	17.8	1.58	0.36	1.1	11.86	2.89
540	412	[illegible] & Mfg	43.9	83½	34⅝	59⅜	4.83	12.3	1.30	2.12	3.6	22.24	2.67
[illegible]23	NR	[illegible]nesota Power & Lt	81.0	35¼	11⅞	23¾	2.08	11.4	1.53	1.72	7.2	16.51	1.44
[illegible]	869	[illegible]chell Energ	–56.4	25½	8¼	10¼	0.04	256.3	0.83	0.24	2.3	12.00	[illegible]
[illegible]	NR	MMR [illegible]	NA	22½	13	17⅛	1.67	10.3	0.16	none	0.0	6.40	2.68
[illegible]	124	MNC [illegible]	167.4	50⅞	14¾	46⅛	5.70	8.1	0.70	1.90	4.1	32.43	1.42
[illegible]	540	Mobil	46.5	55	23⅛	42⅛	5.13	8.2	0.34	2.40	5.7	40.80	1.03
7[illegible]	NR	Molex	8.7	56½	21	34¼	2.46	13.9	1.64	0.03	0.1	13.49	2.54

Note: Except [illegible] licated, price ch[illegible] 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to stoc[illegible] company. Range is for period since su[illegible] three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received in [illegible] spinoff. d: Does not include stock [illegible] en in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equit[illegible] def: Deficit.

Sources: Forbes; William O'Neill & Co

Rank	87	Company	5-year price change	1984-88 price range high	low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
4	388	Monarch Capital	28.5%	91¼	28⅞	45⅛	$3.39	13.3	0.36	none	0.0%	$51.69	0.87
9	336	Monsanto	42.8	100¼	40⅝	75⅛	8.19	9.2	0.65	$3.00	4.0	52.65	1.43
2	641	Montana Power	18.3	43⅜	16⅝	34¾	2.99	11.6	1.15	2.68	7.7	31.75	1.09
2	594	Moore Corp	62.3	27⅝	11⅝	23	1.82	12.6	0.85	0.80	3.5	12.69	1.81
0	281	JP Morgan & Co	110.0	53⅝	14⅛	35⅜	5.23	6.8	0.87	1.50	4.2	26.57	1.33
9	NR	Morgan Products Ltd	1.6[a]	30¾	10½	15½	1.34	11.6	0.30	none	0.0	9.62	1.61
R	NR	Morgan Stanley	NA	85⅞	38¼	75⅜	12.27	6.1	0.51	1.00	1.3	40.44	1.86
6	555	Morrison	58.3	24⅛	9½	20½	1.57	13.0	0.52	0.60	2.9	9.32	2.20
6	572	Morrison-Knudsen	30.7	55⅝	26⅞	36¾	–9.27	def	0.20	1.48	4.0	32.84	1.12
9	225	Morton Thiokol	48.0	54¾	20	37⅞	3.34	11.3	0.74	0.92	2.4	22.38	1.69
9	530	Motorola	–20.5	74	29⅛	36⅛	3.27	11.0	0.59	0.76	2.1	23.27	1.55
2	NR	Multimedia	135.7[a]	76	18⅞	71	1.55	45.8	1.80	none	0.0	–51.52	NE
1	480	Munford	–11.5	37⅞	12¾	16⅝	–0.19	def	0.16	none	0.0	12.53	1.33
3	695	Murphy Oil	0.4	42¾	20⅜	29⅝	–1.44	def	0.69	1.00	3.4	22.15	1.34
3	167	Nacco Industries	72.5	40¾	14	28¼	4.65	6.1	0.43	0.56	2.0	23.27	1.21
6	705	Nalco Chemical	6.0	45½	21	32⅞	2.54	12.9	1.34	1.32	4.0	11.41	2.88
2	97	Nash Finch	218.2	27½	6⅞	26¼	1.95	13.5	0.14	0.64	2.4	12.97	2.02
9	15	Nashua	178.6	42	10	35	3.23	10.8	0.34	0.48	1.4	21.89	1.60
7	107	National City	122.0	38¼	11½	30½	2.97	10.3	0.87	1.44	4.7	19.64	1.55
2	729	Natl Convenience	–51.6	18½	6	8⅛	0.01	812.5	0.17	0.36	4.4	3.32	2.45
9	150	National Fuel Gas	115.4	24	8⅛	17¾	1.65	10.8	0.60	1.26	7.1	15.21	1.17
4	848	National Intergroup	–57.1	37⅝	10¼	15	–3.64	def	0.11	none	0.0	32.14	0.47
5	776	National Medical	–8.2	32⅞	16⅛	21⅛	2.02	10.5	0.48	0.68	3.2	13.11	1.61
2	426	Natl Semiconductor	–47.2	22¼	8¼	8¼	0.07	117.9	0.34	none	0.0	8.74	0.94
1	280	National Service	61.6	28⅝	10½	20⅞	1.75	11.9	0.73	0.76	3.6	10.31	2.02
4	819	National-Standard	–32.8	18	5⅛	11	1.29	8.5	0.17	none	0.0	17.32	0.64
3	NR	National Western Life	6.6	23	6¾	12⅛	1.83	6.6	0.11	none	0.0	25.86	0.47
6	724	Navistar Intl	–57.6	13⅝	3⅛	4⅞	0.74	6.6	0.31	none	0.0	2.46	1.98
1	117	NBD Bancorp	136.0	40⅛	13⅛	35½	4.60	7.7	0.78	1.48	4.2	28.29	1.25
8	NR	NCH Corp	132.6	46	16½	41⅞	3.55	11.8	0.73	0.72	1.7	20.00	2.09
9	297	NCNB	89.9	29⅛	11½	26	2.38	10.9	0.80	1.00	3.8	17.87	1.46
4	102	NCR	62.1	87¼	20⅝	51⅞	5.26	9.9	0.71	1.24	2.4	25.73	2.02
R	NR	Neiman Marcus Group	NA	45½	11¾	15	–0.22	def	0.40	0.20	1.3	7.99	1.88
8	519	New England Electric	26.3	35¼	14⅜	24⅝	–0.57	def	0.94	2.04	8.3	21.41	1.15
0	659	NY State E&G	13.7	38½	14¾	22⅞	1.76	13.0	0.99	2.00	8.7	19.85	1.15
9	104	New York Times	84.8	49⅝	10⅞	25⅞	1.96	13.2	1.22	0.48	1.9	10.04	2.58
0	NR	Newell Co	259.3	29⅝	6⅝	27⅝	1.88	14.7	0.32	0.60	2.2	11.68	2.37
7	663	Newmont Mining	37.9[e]	102¼	15½	35	1.82	19.2	4.85	0.60	1.7	–6.81	NE
7	778	Niagara Mohawk Power	–18.3	25½	11⅛	12⅞	0.99	13.0	0.61	1.20	9.3	13.82	0.93
2	772	Nicor	16.0	33⅞	19	30¾	3.40	9.0	0.62	1.88	6.1	18.69	1.65
0	826	NIKE	119.8	34⅜	6⅝	31⅞	3.57	8.9	0.79	0.60	1.9	11.09	2.87
4	837	Nipsco Industries	–7.7	15⅛	8	13½	1.03	13.1	0.66	0.60	4.4	13.13	1.03
9	906	NL Industries	–63.5	17	3⅜	5¾	–0.05	def	0.23	0.20	3.5	–22.19	NE
1	NR	Noland	65.8	27¼	11½	21	1.77	11.9	0.17	0.44	2.1	24.37	0.86
6	66	Nordstrom	207.7	40¾	6¾	27½	1.33	20.7	1.03	0.22	0.8	6.55	4.20
6	616	Norfolk Southern	38.4	38¼	16⅛	29⅛	3.43	8.5	1.23	1.32	4.5	26.48	1.10
1	721	Nortek	–26.8	19¼	5	9⅛	–0.03	def	0.10	0.10	1.1	14.63	0.62
1	NR	Northeast Savings FA	–19.0	28	6¼	8	–2.83	def	0.06	0.60	7.5	33.17	0.24
9	391	Northeast Utilities	69.4	28¼	10⅝	20¾	1.89	11.0	1.02	1.76	8.5	16.53	1.26
9	284	No States Power	71.7	40⅛	16⅞	32⅝	3.23	10.1	1.05	2.12	6.5	21.89	1.49
3	NR	Northern Telecom	–19.2	24¼	12⅝	15¾	1.36	11.6	0.73	0.28	1.8	9.84	1.60
6	168	Northern Trust	122.5	51	18¾	44½	1.54	28.9	0.71	1.24	2.8	24.20	1.84
9	661	Northrop	13.9	56⅝	23¾	32¾	4.79	6.8	0.26	1.20	3.7	20.23	1.62
7	394	No'western Natl Life	77.7	36½	17⅜	30⅞	2.90	10.6	0.25	1.12	3.6	35.05	0.88
2	636	Norton	22.5	64	30¾	45⅝	3.99	11.4	0.67	2.00	4.4	25.00	1.82
4	554	Norwest	42.2	35¼	14⅜	31⅞	4.30	7.4	0.59	1.33	4.2	22.18	1.44
4	NR	Noxell	96.0	33¾	7⅞	18½	1.22	15.2	1.46	0.46	2.5	5.26	3.52
4	451	Nucor	49.1	49½	17⅜	42½	3.12	13.6	0.88	0.40	0.9	20.19	2.10
8	803	NWA	20.7	76	30⅝	54	3.47	15.6	0.29	0.90	1.7	52.32	1.03
4	255	Nynex	113.0	78⅜	29⅜	65½	6.48	10.1	1.04	4.04	6.2	45.65	1.43
1	617	Occidental Petroleum	3.0	39⅝	22¼	25⅝	1.37	18.7	0.37	2.50	9.8	23.96	1.07
9	367	Ogden	79.2	44⅝	12⅛	27	1.55	17.4	1.10	1.10	4.1	10.40	2.60

: Except as indicated, price changes are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to stock pany. Range is for period since such change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received in a off. d: Does not include stock dividends given in another company as part of the dividend. e: Does not reflect special cash dividend paid. NA: Not available. Not meaningful. NE: Negative equity. def: Deficit.

Sources: Forbes; William O'Neill & Co.

WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Rec pri bo val
510	455	[illegible]	47.8%	45¼	15	25¼	$2.18	11.6	0.45	$0.88	3.5%	$12.71	1.[illegible]
488	373	[illegible]	52.3	49¼	17½	34¾	3.32	10.5	0.48	1.88	5.4	27.86	1.[illegible]
499	551	[illegible]	50.0	23¼	9⅜	18⅜	1.88	9.8	1.38	1.96	10.7	17.39	1.[illegible]
565	NR	[illegible]	40.3	16¼	7¼	13	0.92	14.1	0.66	0.40	3.1	7.21	1.[illegible]
481	499	[illegible]	53.6	38¾	19⅛	32¼	3.42	9.4	1.25	2.28	7.1	20.11	1.[illegible]
206	[illegible]	[illegible]	117.7	26⅞	14⅝	22¼	3.11	7.2	0.75	0.92	4.1	17.64	1.[illegible]
766	[illegible]	[illegible]	1.8	36⅝	18	24½	4.37	5.6	0.40	0.74	3.0	30.13	0.[illegible]
502	[illegible]	[illegible]	49.6	60	25⅛	46	4.36	10.6	0.46	1.80	3.9	31.81	1.[illegible]
28[illegible]	[illegible]	[illegible]	362.5	30½	4⅛	21¾	1.32	16.5	0.54	0.20	0.9	5.00	4.[illegible]
[illegible]	[illegible]	[illegible] Group	NA	28¾	15⅜	19⅞	1.56	12.7	0.57	0.98	4.9	8.11	2.[illegible]
[illegible]	[illegible]	[illegible]	–40.6	44	9⅝	18⅛	1.51	12.0	0.44	none	0.0	22.44	0.[illegible]
[illegible]	[illegible]	[illegible] & Rockland	43.7	40	19¼	30	3.25	9.2	0.80	2.26	7.5	22.45	1.[illegible]
[illegible]	[illegible]	Orion Capital	–46.8	40¼	11	14¾	2.94	5.0	0.16	0.76	5.2	17.50	0.[illegible]
772	NR	Orion Pictures	0.9	19½	5½	13⅝	0.57	23.9	0.53	none	0.0	8.53	1.[illegible]
928	NR	Oshkosh Truck	–41.0[a]	33	11½	11½	1.73	6.6	0.29	0.40	3.5	11.45	1.[illegible]
674	630	Outboard Marine	17.6	38½	16¼	29¼	3.74	7.8	0.35	0.80	2.7	26.67	1.[illegible]
228	NR	Owens & Minor	106.6	15¼	5	14	0.99	14.1	0.17	0.26	1.9	8.51	1.[illegible]
NR	NR	Owens-Corning	NA	32⅜	8⅞	21¼	4.27	5.0	0.30	none	0.0	–20.23	N[illegible]
935	715	Oxford Industries	–44.6	20⅜	9⅛	10	–0.88	def	0.17	0.50	5.0	10.40	0.[illegible]
604	612	Paccar	30.7	42¾	19¼	37¾	4.59	8.2	0.46	1.00	2.6	22.34	1.[illegible]
901	NR	PACE Membership	–31.6[a]	21½	3⅞	10	0.43	23.3	0.12	none	0.0	7.53	1.[illegible]
755	386	Pacific Enterprises	3.8	61¼	30¾	37⅝	3.74	10.1	0.42	3.48	9.2	27.11	1.[illegible]
670	621	Pacific G&E	18.5	27⅞	12	17⅝	1.44	12.2	0.94	1.40	7.9	18.68	0.[illegible]
627	691	Pacific Resources	26.3	17⅜	5⅝	12½	0.78	16.0	0.24	0.20	1.6	10.05	1.[illegible]
215	316	Pacific Telesis	112.6	34½	13¼	29½	2.57	11.5	1.32	1.76	6.0	18.47	1.[illegible]
546	472	PacifiCorp	43.4	39	21	35⅛	3.94	8.9	1.10	2.64	7.5	26.04	1.[illegible]
936	880	PaineWebber Group	–44.6	39⅛	13⅛	15½	0.93	16.7	0.19	0.52	3.4	26.29	0.[illegible]
503	NR	Pall	49.3	35	13⅝	27⅝	1.55	17.8	2.39	0.40	1.4	8.65	3.[illegible]
986	705	Pan Am	–69.2	9½	2⅜	2½	–1.92	def	0.09	none	0.0	–1.75	N[illegible]
NR	NR	Panhandle Eastern	NA	34¾	18¼	24¾	–1.89	def	0.98	2.00	8.1	19.15	1.[illegible]
712	306	Parker-Hannifin	12.1	49	16⅞	26⅝	2.22	12.0	0.55	0.84	3.2	17.36	1.[illegible]
659	439	Penn Central	20.7	34¼	18⅜	22⅝	1.06	21.2	1.08	0.05	0.2	23.21	0.[illegible]
NR	NR	Penn Traffic	NA	15⅜	12¼	12⅞	1.42	9.1	0.10	none	0.0	3.29	3.[illegible]
325	340	JC Penney	80.1	66	22⅜	51	4.67	10.9	0.45	none	0.0	30.15	1.[illegible]
361	444	Pennsylvania P&L	73.3	43⅜	19½	35¾	3.73	9.6	1.21	2.76	7.7	26.28	1.[illegible]
272	586	Pennwalt	94.4	95½	31½	78¾	4.03	19.5	0.86	2.40	3.0	37.83	2.[illegible]
221	323	Pennzoil	109.9	95	30¾	71⅜	–5.56	def	1.31	3.00	4.2	7.67	9.[illegible]
456	355	Pentair	56.5	35¾	14½	30	3.79	7.9	0.36	0.67	2.2	18.95	1.[illegible]
NR	NR	People's Bank	NA	9⅝	7⅝	7¾	NA	NA	0.09	0.64	8.3	NA	[illegible]
229	425	Peoples Energy	106.4	26¾	9⅛	20⅛	2.31	8.7	0.59	1.52	7.6	14.27	1.[illegible]
156	47	Pep Boys	137.5	18⅞	3⅞	11⅞	0.62	19.2	1.08	0.10	0.8	4.36	2.[illegible]
77	134	PepsiCo	205.9	43⅝	11½	39	2.74	14.2	0.83	0.84	2.2	9.63	4.[illegible]
646	798	Perini	22.1[b]	37½	20⅛	33⅞	4.39	7.7	0.12	0.80	2.4	35.56	0.[illegible]
895	900	Perkin-Elmer	–29.4	41⅛	17⅞	20¾	1.67	12.4	0.80	0.68	3.3	16.15	1.[illegible]
934	727	Perry Drug Stores	–44.2	20⅞	5¼	6	–3.08	def	0.09	none	0.0	7.17	0.[illegible]
713	440	Petrie Stores	12.1	40	13⅜	15⅝	0.83	18.2	0.61	0.20	1.3	11.51	1.[illegible]
485	518	Pfizer	52.8	77	29⅜	54⅝	4.68	11.7	1.70	2.00	3.7	23.60	2.[illegible]
343	583	Phelps Dodge	75.7	56	12⅞	44⅜	11.45	3.9	0.64	1.60	3.6	35.99	1.[illegible]
808	816	PHH Corp	–5.9	45	18	33⅞	1.31	25.7	0.34	1.12	3.3	18.82	1.[illegible]
587	676	Philadelphia Elec	35.7	26	9	19½	2.44	8.0	1.22	2.20	11.3	17.20	1.[illegible]
122	106	Philip Morris Cos	153.7	124½	31⅛	91	9.58	9.5	0.88	4.50	4.9	28.83	3.[illegible]
203	207	Philips Industries	118.8	23⅞	5¼	17½	1.57	11.1	0.60	0.52	3.0	7.60	2.[illegible]
378	720	Phillips Petroleum	69.6	22⅜	8¼	19½	2.29	8.5	0.42	0.72	3.7	7.05	2.[illegible]
600	206	Phillips-Van Heusen	31.9	26½	6½	11⅞	1.36	8.7	0.18	0.28	2.4	2.48	4.[illegible]
976	[illegible]	PHM Corp	–63.1	27	6⅛	9⅛	0.12	76.0	0.21	0.12	1.3	9.14	1.[illegible]
323	NR	Piedmont Natural Gas	81.0	26¼	11¾	23¾	2.76	8.6	0.61	1.48	6.2	14.98	1.[illegible]
NR	NR	Pilgrim's Pride	NA	15⅜	3⅝	5¾	–0.34	def	0.26	0.06	1.0	3.00	1.[illegible]
75	17[illegible]	[illegible]bury	207.9	61¾	16½	56	0.82	68.3	0.77	1.20	2.1	15.67	3.[illegible]
864	674	[illegible]cle West	–19.4	32¾	14½	15⅝	2.17	7.2	0.97	2.80	17.9	26.62	0.[illegible]
768	623	[illegible]eet Hi-Bred Intl	1.7	43¾	23¼	30½	1.94	15.7	1.11	1.04	3.4	17.11	1.[illegible]
[illegible]33	105	[illegible]ney Bowes	149.0	50¼	13⅜	40⅝	1.30	31.3	1.34	0.92	2.3	13.35	3.[illegible]
[illegible]2	833	[illegible]n	15.2	18⅛	8½	16⅛	–3.00	def	0.40	none	0.0	10.33	1.[illegible]

[illegible]xcept as indicated. [illegible] changes are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to st[illegible] co[illegible] Range is for period since such change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received [illegible] spinoff. [illegible]: Does not include stock dividends given in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equ[illegible] def: Deficit.

Sources: Forbes, William O'Neill & C[illegible]

Rank	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
87	Company											
416	PNC Financial	90.1%	51	18⅛	40¾	$4.08	10.0	1.00	$1.88	4.6%	$24.74	1.65
406	Polaroid	106.0	44⅛	12⅛	34½	0.42	82.1	1.34	0.60	1.7	17.34	1.99
NR	Pope & Talbot	27.7	27¼	7½	17	2.54	6.7	0.42	0.50	2.9	11.47	1.48
517	Portland General	66.0	36¾	13	22	1.54	14.3	1.35	1.96	8.9	18.92	1.16
578	Potlatch	57.9	41⅞	12⅞	30	3.75	8.0	0.77	1.04	3.5	22.20	1.35
170	Potomac Electric	100.0	29⅝	9⅝	21⅞	2.12	10.3	1.54	1.38	6.3	12.60	1.74
161	PPG Industries	111.5	53½	12½	36⅞	4.17	8.8	0.74	1.36	3.7	18.43	2.00
NR	Precision Castparts	386.4	40½	5⅜	32¾	2.09	15.7	1.27	0.08	0.2	9.53	3.44
NR	Premark Intl	NA	36¼	17½	28⅛	3.36	8.4	0.40	0.60	2.1	19.68	1.43
774	Premier Bancorp	–67.1	20½	3⅞	4⅞	–2.55	def	0.30	none	0.0	12.25	0.40
NR	Premier Industrial	79.0	33⅛	11¼	27¼	1.53	17.8	2.16	0.40	1.5	6.71	4.06
NR	Preston	–21.2	24	7⅞	16¾	0.00	NA	0.17	0.50	3.0	19.00	0.88
220	Price Co	128.6	55¾	11⅞	37	1.93	19.2	0.45	none	0.0	7.74	4.78
860	Prime Computer	–3.5	31	11¾	17	1.01	16.8	0.57	none	0.0	10.54	1.61
393	Primerica	15.2	53½	20⅛	27	4.43	6.1	0.33	1.60	5.9	25.00	1.08
539	Procter & Gamble	39.3	103½	45⅝	79¼	6.23	12.7	0.67	2.80	3.5	37.42	2.12
36	Progressive	129.3	38½	8⅞	24⅝	3.07	8.0	0.59	0.40	1.6	13.74	1.79
618	Provident Life & Acc	46.9	28¾	12	19¼	1.43	13.4	0.33	0.68	3.5	21.96	0.88
815	PS Group	42.0	38¼	15	30⅞	7.38	4.2	0.75	0.60	1.9	34.80	0.89
881	PSI Holdings	18.3	18⅝	6⅞	13¾	2.51	5.5	0.71	none	0.0	6.60	2.08
658	Public Service Colo	8.8	24¼	16	20⅛	2.60	7.7	0.62	2.00	9.9	16.35	1.23
917	Public Service NH	–59.8	12⅞	2¼	4⅝	–2.49	def	0.29	none	0.0	2.23	2.07
789	Public Service NM	–54.2	39¼	11⅝	11⅝	–0.37	def	0.61	1.52	13.1	25.68	0.45
457	Pub Svc Enterprise	60.7	32⅛	13½	24⅜	2.54	9.6	1.17	2.04	8.4	18.54	1.31
626	Puget Sound P&L	30.7	25¼	9¼	18⅝	2.15	8.7	1.31	1.76	9.4	15.50	1.20
35	Quaker Oats	238.1	61½	13⅝	49⅞	3.29	15.2	0.72	1.20	2.4	15.76	3.16
733	Quaker State	–5.0	31¾	12⅞	16⅝	0.48	34.6	0.54	0.80	4.8	12.15	1.37
222	Quantum Chemical	243.8	108¼	22¾	94⅛	12.47	7.5	0.77	3.00	3.2	35.03	2.69
365	Questar	18.5	46⅜	23	31¼	0.80	39.1	1.21	1.88	6.0	24.48	1.28
46	Ralston Purina	173.9	94	25	76	5.63	13.5	0.88	1.50	2.0	13.70	5.55
669	Ramada	–11.4	11	4	8¾	0.04	218.8	0.65	none	0.0	7.56	1.16
417	Raychem	40.9	54⅞	15⅞	36⅝	3.36	10.9	1.16	0.32	0.9	19.68	1.86
511	Raytheon	58.3	84⅞	34¾	68¼	7.11	9.6	0.56	2.00	2.9	27.31	2.50
NR	Reebok International	146.4[a]	25¼	2⅞	11½	1.44	8.0	0.72	0.30	2.6	5.20	2.21
NR	Reliance Group	NA	11½	4½	4¾	0.74	6.4	0.10	0.32	6.7	4.13	1.15
442	Republic New York	75.2	57¾	21	42⅝	4.09	10.4	0.65	1.20	2.8	33.77	1.26
NR	Rexene	NA	23¾	16	16⅞	NA	NA	0.74	0.60	3.6	0.00	NA
693	Reynolds & Reynolds	–1.9	41½	13	19⅝	1.68	11.7	0.62	0.76	3.9	17.38	1.13
68	Reynolds Metals	153.2	61¾	13	50	7.65	6.5	0.51	1.00	2.0	29.69	1.68
NR	Richfood Holding	NA	10¼	7⅞	8¼	NA	NA	0.08	0.20	2.4	NA	NA
429	Riggs National	43.4	41½	13½	24⅜	1.56	15.6	0.67	1.10	4.5	22.18	1.10
259	Rite Aid	56.2	46¼	17½	34¾	2.40	14.5	0.53	0.74	2.1	13.81	2.52
191	RJR Nabisco	245.7[c]	89⅞	21⅛	84	5.60	15.0	1.14	2.20	2.6	24.41	3.44
704	RLC	–8.6	12⅛	4⅝	10⅝	0.92	11.5	0.70	0.20	1.9	6.64	1.60
726	Roadway Services	–14.9	45¾	23¼	29¼	1.67	17.5	0.57	1.10	3.8	16.45	1.78
878	HH Robertson	–80.4	48½	9	9	–5.34	def	0.14	none	0.0	17.15	0.52
768	AH Robins	1.7	29⅝	5½	22½	–68.15	def	0.59	none	0.0	–64.73	NE
741	Rochester G&E	1.4	29⅞	12¼	17¾	1.58	11.2	0.72	1.50	8.5	16.99	1.04
NR	Rochester Telephone	58.3	52	27½	47⅞	3.59	13.3	1.12	2.72	5.7	28.54	1.68
380	Rockwell Intl	14.4	30⅞	11½	18⅞	3.04	6.2	0.42	0.72	3.8	12.00	1.57
217	Rohm & Haas	59.9	53¼	16	32⅜	3.37	9.6	0.87	1.12	3.5	15.78	2.05
178	Rohr Industries	41.3	39	12¾	25⅞	1.85	14.0	0.50	none	0.0	21.34	1.21
456	Rollins	78.9[b]	22¾	6⅞	17	1.05	16.2	1.07	0.52	3.1	2.45	6.94
516	Rorer Group	92.1	48¼	16	38¾	1.81	21.4	1.22	0.80	2.1	12.86	3.01
80	Rose's Stores	–19.7	23	7	7⅝	0.55	13.9	0.11	0.16	2.1	9.49	0.80
NR	Ross Stores	–47.9[a]	20¼	3⅝	9⅜	0.73	12.8	0.39	none	0.0	4.16	2.25
108	Rubbermaid	141.5	35	8¼	23⅝	1.31	18.0	1.49	0.44	1.9	5.94	3.98
334	Ruddick	70.3	22⅞	10	21½	1.89	11.4	0.18	1.32	6.1	13.48	1.59
NR	Russell	88.3	20½	5⅝	16⅛	1.29	12.5	1.23	0.24	1.5	7.16	2.25
506	Ryder System	20.7	43	12¾	22¾	1.59	14.3	0.36	0.56	2.5	16.73	1.36
341	Rykoff-Sexton	73.8	32⅜	10⅛	28¼	1.95	14.5	0.23	0.68	2.4	17.40	1.62
652	Ryland Group	34.3	33	6⅜	17⅞	2.67	6.7	0.27	0.50	2.8	10.50	1.70

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Sources: Forbes; William O'Neill & Co.

WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Rec pric bo val
368	236	Safe[illegible]	71.9%	38	13½	23¾	$3.46	6.9	0.56	$1.08	4.5%	$21.39	1.1
584	468	S[illegible]	36.4	60	19	41¼	6.77	6.1	0.55	2.00	4.8	36.96	1.1
888	830	[illegible]	–25.9	59⅜	16⅝	23⅝	1.51	15.6	0.55	0.64	2.7	23.22	1.0
290	349	[illegible]	89.2	42½	17⅝	37⅛	3.22	11.5	1.00	2.60	7.0	22.25	1.6
NR	332	[illegible]	NA	27¾	14¼	17⅛	–0.56	def	0.72	0.10	0.6	33.39	0.5
68	[illegible]	[illegible]	229.8	51½	12½	42⅞	2.94	14.6	0.44	1.44	3.4	14.73	2.9
296	[illegible]	[illegible] Foods	88.5	37½	16½	37	2.04	18.1	0.28	0.96	2.6	17.93	2.0
1008	[illegible]	[illegible]	–95.0	9⅛	⅛	¼	–0.02	def	0.04	none	0.0	–1.73	N
347	[illegible]	[illegible]	75.4	42⅞	17¼	31⅛	2.87	10.8	1.18	2.40	7.7	21.63	1.4
[illegible]	[illegible]	[illegible] Scorp	64.2	38¾	17⅛	32⅝	3.78	8.6	1.16	2.48	7.6	23.13	1.4
[illegible]	[illegible]	[illegible]hering-Plough	184.6	59⅜	16½	53	3.32	16.0	2.05	1.60	3.0	12.90	4.1
[illegible]	[illegible]	Schlumberger	–33.0	55	26	33½	2.46	13.6	1.86	1.20	3.6	14.09	2.3
[illegible]	[illegible]	A Schulman	261.1	45	9⅛	37¾	3.09	12.2	0.56	0.48	1.3	13.97	2.7
57	NR	Schultz Sav-O Stores	403.7	17	2⅞	17	1.91	8.9	0.06	0.17	1.0	10.87	1.5
NR	NR	Charles Schwab	NA	17	5¾	6⅞	NA	NA	0.42	none	0.0	5.89	1.1
848	656	SCI Systems	–15.8	23⅛	6⅞	12⅝	0.95	13.3	0.31	none	0.0	7.27	1.7
883	NR	Scientific-Atlanta	–23.3	20¼	7¼	11½	1.28	9.0	0.54	0.12	1.0	9.90	1.1
164	77	Scott Paper	134.8	43½	12⅝	37⅛	5.07	7.3	0.60	0.80	2.2	21.44	1.7
840	856	Scotty's	–14.0	18⅛	10	12¼	0.30	40.8	0.32	0.52	4.2	12.21	1.0
NR	NR	EW Scripps	NA	18⅛	14½	16⅛	0.38	42.4	1.05	0.30	1.9	6.72	2.4
950	645	Seagate Technology	–50.5	45¾	4	6⅞	0.18	38.2	0.25	none	0.0	8.89	0.7
476	223	Seagram	54.5	82⅜	30	56	6.24	9.0	1.63	1.20	2.1	47.03	1.1
735	640	Sears, Roebuck	7.7	59½	26	40	3.84	10.4	0.29	2.00	5.0	35.89	1.1
154	301	Seaway Food Town	138.5	17	5½	15½	3.94	3.9	0.09	0.36	2.3	9.52	1.6
560	361	Security Pacific	41.2	43⅞	19	36	3.73	9.7	0.49	1.96	5.4	28.00	1.2
473	NR	Selective Insurance	54.7	27½	12¼	24¾	4.66	5.3	0.48	1.24	5.0	19.82	1.2
237	144	Sequa	104.1	88⅜	24¼	61¾	4.67	13.2	0.41	0.60	1.0	57.39	1.0
463	NR	Service Corp Intl	55.5	31⅞	9	16⅛	1.35	11.9	1.41	0.48	3.0	11.85	1.3
783	913	Service Merchandise	–2.3	18¾	3	15¾	1.60	9.8	0.18	0.08	0.5	9.21	1.7
751	795	Shaklee	4.8	28	11⅜	22	1.65	13.3	0.47	0.80	3.6	19.26	1.1
217	109	Shaw Industries	111.6	30¾	5½	22¾	2.34	9.7	0.33	0.66	2.9	10.21	2.2
533	447	Shawmut National	45.0	55½	18¼	24¼	3.00	8.1	0.66	1.36	5.6	20.40	1.1
NR	NR	Shearson Lehman	NA	34⅛	12½	19⅞	0.23	86.4	0.18	0.75	3.8	17.70	1.1
274	216	Sherwin-Williams	93.3	38½	11⅛	25⅜	2.31	11.0	0.58	0.64	2.5	12.57	2.0
NR	460	Shoney's	NA	9	6¾	7	1.46	4.8	0.34	4.00	57.1	8.29	0.8
270	241	Signet Banking	94.7	38⅜	15⅝	32	5.34	6.0	0.66	1.40	4.4	20.62	1.5
884	876	Skyline	–23.9	21	11⅛	13½	1.22	11.1	0.45	0.48	3.6	12.57	1.0
822	300	AO Smith	–9.0	32⅛	10⅜	17¾	1.31	13.5	0.15	0.80	4.5	27.97	0.6
977	912	Smith International	–63.3	21⅜	1¼	7¾	0.92	8.4	0.68	none	0.0	3.95	1.9
4	17	Smithfield Foods	717.1	20½	1½	17⅝	1.96	9.0	0.16	none	0.0	5.41	3.2
517	580	SmithKline Beckman	46.9	72¾	25	41½	1.70	24.4	1.10	1.84	4.4	12.74	3.2
171	200	Snap-on Tools	130.9	46½	13½	35½	2.63	13.5	1.77	1.00	2.8	10.97	3.2
199	141	Society	120.2	40	14⅜	32¾	4.06	8.1	0.77	1.36	4.2	26.93	1.2
852	731	Sonat	–16.7	43⅛	21⅜	27⅜	2.30	11.9	0.81	2.00	7.3	26.39	1.0
125	155	Sonoco Products	152.3	33½	9½	27¾	1.91	14.5	0.77	0.72	2.6	8.68	3.2
842	882	Soo Line	–14.2	36⅞	12¼	22⅝	1.78	12.7	0.37	none	0.0	26.68	[illegible]
178	NR	South Carolina Natl	128.0	27⅝	9¾	23⅜	2.50	9.3	0.95	0.64	2.7	16.29	1.4
572	453	Southeast Banking	39.0	31⅜	14⅝	22	3.81	5.8	0.52	1.00	4.5	22.07	1.0
609	566	Southern Company	30.5	29	14⅜	21⅜	2.50	8.6	0.92	2.14	10.0	20.89	1.0
454	446	So N England Telecom	56.5	61½	27¾	54	4.89	11.0	1.08	3.00	5.6	34.88	1.5
987	615	Southmark	–71.2	14	2	2¼	–4.91	def	0.03	none	0.0	7.68	0.2
210	NR	SouthTrust	115.0	25¾	8⅞	21⅛	2.61	8.1	0.88	0.88	4.2	15.89	1.3
907	854	Southwest Airlines	–34.3	31	11¾	17⅞	1.61	11.1	0.68	0.14	0.8	16.43	1.0
460	311	Southwest Gas	55.9	26¾	10⅝	19⅞	2.17	9.2	0.70	1.34	6.7	15.72	1.2
243	351	Southwestern Bell	101.9	45½	18⅜	39⅝	3.33	11.9	1.41	2.48	6.3	27.26	1.4
580	536	Southwestern Pub Svc	37.3	37⅞	17	27⅛	2.50	10.8	1.40	2.20	8.1	14.88	1.8
525	575	Sovran Financial	46.0	44½	16⅞	31⅛	3.95	7.9	0.84	1.52	4.9	22.01	1.4
NR	NR	Spiegel	NA	16¼	6¼	8	0.85	9.4	0.35	0.12	1.5	5.34	1.5
NR	NR	Sprague Technologies	NA	20	7⅛	11½	0.71	16.2	0.42	none	0.0	16.77	0.6
515	558	Springs Industries	47.2	38¾	15⅜	29¼	2.58	11.3	0.29	1.00	3.4	28.64	1.0
355	NR	SPS Technologies	74.1	47¾	19½	42⅞	1.43	30.0	0.51	1.00	2.3	33.10	1.3
625	651	SPX	26.8	39⅝	19¾	33¾	2.62	12.9	0.49	1.20	3.6	23.41	1.4

Note: Except as indicated, price changes are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to sto company. Range is for period since such change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received i spinoff. d: Does not include stock dividends given in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equ def: Deficit.

Sources: Forbes; William O'Neill & Co.

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
697	590	Square D	14.1%	65½	31⅛	45⅝	$4.14	11.0	0.78	$2.00	4.4%	$24.57	1.86
100	93	Squibb	178.4	102⅞	18⅞	63½	4.11	15.5	2.48	1.60	2.5	14.81	4.29
NR	NR	SSMC	NA	31⅜	11½	19¼	0.24	80.2	0.20	none	0.0	29.54	0.65
226	374	Std Commercial	108.1	22⅛	7⅛	18½	1.31	14.1	0.18	0.48	2.6	17.92	1.03
NR	NR	Standard Fedl Bank	NA	11	4⅝	8¼	1.89	4.4	0.30	0.40	4.8	11.56	0.71
251	NR	Standard Products	98.9	44¾	7¼	26¼	3.23	8.1	0.54	0.80	3.0	13.71	1.91
293	70	Standard Register	88.9	28½	7⅜	14⅞	1.29	11.5	0.67	0.48	3.2	9.11	1.63
340	476	Standard Shares	76.3	105	53	95	6.60	14.4	0.34	none	0.0	61.31	1.55
440	NR	Standex International	59.1	24	11	21⅞	1.21	18.1	0.57	0.60	2.7	13.71	1.60
34	NR	Stanhome	319.7	21¾	4⅜	18⅝	1.83	10.2	0.78	0.58	3.1	6.68	2.79
536	532	Stanley Works	44.5	36⅝	13	26¼	2.30	11.4	0.60	0.96	3.7	14.59	1.80
58	94	State Street Boston	244.8	36⅛	7⅛	25	2.43	10.3	1.04	0.52	2.1	12.90	1.94
930	NR	Statesman Group	–41.8	6⅞	2⅞	3¼	0.01	224.1	0.05	none	0.0	4.62	0.70
NR	NR	Sterling Chemicals	NA	17¾	14⅞	14⅞	3.56	4.2	1.28	none	0.0	1.29	11.53
134	561	Stewart & Stevenson	148.4	27⅞	6⅜	25¼	2.44	10.3	0.44	0.20	0.8	12.04	2.10
204	88	Stone Container	118.2	39⅞	8	29	4.86	6.0	0.47	0.36	1.2	12.39	2.34
1004	934	Storage Technology	–89.0	14⅝	1	1½	0.09	16.7	0.43	none	0.0	1.02	1.47
236	91	Strawbridge	104.2	51⅞	15	33	3.14	10.3	0.28	1.10	3.3	24.39	1.35
70	122	Student Loan	226.0	89½	21	81½	5.04	16.2	1.44	0.80	1.0	12.41	6.57
956	813	Subaru of America	–53.7	39	4⅞	4⅞	–0.96	def	0.14	none	0.0	5.51	0.88
900	461	Sun Company	–31.4	73⅛	36	30	0.11	272.7	0.35	1.80	6.0	48.87	0.61
NR	NR	Sun Microsystems	NA	20⅜	5⅝	13¾	0.98	14.1	0.77	none	0.0	5.11	2.69
764	764	Sundstrand	2.1	64½	34⅜	49¾	–0.34	def	0.64	1.80	3.6	32.32	1.54
734	NR	SunTrust Banks	7.8[a]	27¾	15½	20⅝	2.32	8.9	0.95	0.68	3.3	12.92	1.60
242	65	Super Food Services	103.1	29⅛	7¾	25⅞	2.02	12.8	0.11	0.44	1.7	11.67	2.22
548	875	Super Rite Foods	43.0	27¼	6	20⅜	1.35	15.1	0.15	0.24	1.2	7.42	2.75
492	514	Super Valu Stores	51.3	30⅜	11¾	22⅛	1.64	13.5	0.17	0.50	2.3	9.07	2.44
307	604	Sysco	85.6	41½	12⅞	33⅞	2.03	16.7	0.31	0.36	1.1	12.05	2.81
471	187	Talley Industries	54.9	24⅜	7⅞	14¼	0.15	95.0	0.38	0.30	2.1	10.41	1.37
NR	NR	Talman Home Federal	NA	13½	5¾	8⅜	2.59	3.2	0.15	0.20	2.4	30.45	0.28
266	313	Tambrands	95.7	71⅛	23⅜	57	3.86	14.8	2.26	2.04	3.6	14.11	4.04
833	375	Tandem Computers	–12.5	37⅝	6½	15⅜	0.96	16.0	1.12	none	0.0	7.74	1.99
796	846	Tandy	–4.0	56½	23¼	41⅝	3.53	11.8	0.97	0.60	1.4	18.10	2.30
119	NR	TBC Corp	157.1	15¼	3½	12	1.44	8.3	0.26	none	0.0	5.16	2.33
NR	NR	TCF Financial	NA	17¾	6⅝	10¼	–8.31	def	0.13	0.40	3.9	19.72	0.52
334	244	TECO Energy	78.6	27⅞	12	24	2.04	11.8	1.33	1.42	5.9	13.98	1.72
416	526	Tecumseh Products	61.9	160	78½	146½	12.84	11.4	0.75	3.20	2.2	105.25	1.39
939	756	Tektronix	–46.6	43¼	19¾	19⅞	–0.34	def	0.40	0.60	3.0	17.67	1.12
53	26	Tele-Communications	251.9	30¼	5¼	23¾	0.03	791.7	1.68	none	0.0	5.20	4.57
276	276	Teledyne	93.2[c]	390	147¼	323⅛	38.94	8.3	1.12	4.00	1.2	169.35	1.91
375	443	Temple-Inland	70.3	68½	20¼	44⅝	6.63	6.7	0.72	0.84	1.9	33.52	1.33
677	600	Tenneco	17.4	62½	32⅜	48⅛	0.13	370.2	0.52	3.04	6.3	25.44	1.89
865	845	Tesoro Petroleum	–19.6	20⅞	7½	11¼	–2.04	def	0.14	none	0.0	13.13	0.86
621	734	Texaco	27.2	52½	23½	45⅝	–15.47	def	0.32	3.00	6.6	37.76	1.21
238	686	Texas Air	103.8	51½	5⅝	13½	–19.89	def	0.07	none	0.0	10.46	1.29
1014	918	Texas American Bcsh	–99.0	42⅞	⅛	⅜	–38.47	def	0.01	none	0.0	16.32	0.02
825	806	Texas Eastern	–10.3	41⅜	20½	26⅛	2.96	8.8	0.41	1.00	3.8	24.12	1.08
763	725	Texas Industries	2.5	44½	21⅜	29½	0.85	34.8	0.40	0.80	2.7	22.12	1.33
882	749	Texas Instruments	–23.2	80¼	28¾	35½	4.03	8.8	0.46	0.72	2.0	19.40	1.83
640	632	Texas Utilities	22.6	37½	20¾	28½	4.31	6.6	1.10	2.88	10.1	33.02	0.86
551	362	Textron	42.5	39¾	12⅞	23¼	2.88	8.1	0.29	1.00	4.3	25.34	0.92
639	NR	Thomas & Betts	22.8	67¾	28¼	45¾	3.36	13.6	1.56	1.84	4.0	17.07	2.68
809	818	Thorn Apple Valley	–6.3	8¾	3¾	7½	1.08	6.9	0.04	none	0.0	9.69	0.77
1010	927	TIE/Communications	–95.4	28⅜	1⅛	1¼	–0.72	def	0.17	none	0.0	4.20	0.30
235	653	Tiger International	104.3	17¾	3⅝	11¾	1.85	6.4	0.31	none	0.0	0.63	18.65
179	352	Time Inc	127.8[b]	122½	33¾	97⅜	4.88	20.0	1.28	1.00	1.0	21.60	4.51
380	253	Times Mirror	69.3	52⅞	14⅛	31¾	2.25	14.1	1.27	0.92	2.9	11.32	2.80
828	692	Timken	–11.2	41⅜	19¾	28¾	1.76	16.3	0.55	0.80	2.8	32.89	0.87
1005	932	Todd Shipyards	–91.6	39½	1⅝	2⅝	–4.76	def	0.03	none	0.0	13.41	0.20
97	41	Torchmark	179.5[c]	38½	9¼	29⅞	2.96	10.1	1.02	1.20	4.0	13.47	2.22
120	429	Toro	154.8	24⅞	6½	19¾	1.84	10.7	0.33	0.48	2.4	7.27	2.72
917	926	Tosco	–37.5	5⅛	1	3⅛	0.75	4.2	0.10	none	0.0	1.26	2.48

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Sources: Forbes; William O'Neill & Co.

WHO'S WHERE IN THE STOCK MARKET

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
198	202	Toys "R" Us	120.3%	42¾	[illegible]	35¼	$1.67	20.5	1.23	none	0.0%	$8.87	3.97
770	568	Transamerica	1.6	51½	20⅞	31⅝	4.34	7.3	0.31	$1.88	5.9	31.84	0.99
853	775	Tran[illegible]	–16.9	63½	18	31⅜	–0.28	def	0.31	1.36	4.3	26.36	1.19
731	510	Tra[illegible]	8.7	59½	25½	34½	–1.45	def	0.19	2.40	7.0	45.50	0.76
965	NR	Tri[illegible]	–57.6b	29	7¼	10⅛	–29.20	def	0.01	none	0.0	2.71	3.74
140	215	[illegible]	145.7	49¾	12	37⅝	2.50	15.1	1.24	0.76	2.0	14.35	2.62
647	521	[illegible]	21.9	37⅞	12½	28½	1.17	24.4	0.68	0.50	1.8	11.37	2.51
273	[illegible]	[illegible]	94.2	44¼	12⅞	25	2.44	10.2	0.46	0.64	2.6	18.49	1.35
686	[illegible]	[illegible]	15.6	42⅜	20⅛	26	3.55	7.3	0.67	1.50	5.8	24.11	1.08
756	[illegible]	[illegible]	3.6	70	29¼	41¼	4.48	9.2	0.35	1.72	4.2	23.27	1.77
594	[illegible]	Tucson Electric	34.2	65	32⅜	51	5.05	10.1	2.37	3.90	7.6	30.84	1.65
[illegible]	[illegible]	[illegible]rner	–14.1	31⅜	14¾	16¾	0.76	22.0	0.02	1.30	7.8	11.61	1.44
645	[illegible]	Turner Broadcasting	22.1	16⅜	5½	14½	–3.42	def	0.86	none	0.0	–5.01	NE
NR	NR	TW Services	NA	27⅛	9¼	22⅜	1.33	16.8	0.31	0.10	0.4	9.27	2.41
241	NR	20th Century Inds	103.1	29⅝	7⅜	16⅛	1.83	8.8	0.70	0.36	2.2	7.44	2.17
21	21	Tyco Laboratories	378.6	38⅜	6½	33½	2.15	15.6	0.69	0.28	0.8	8.15	4.11
963	690	Tyler	–56.9	18⅛	5¾	6¼	1.40	4.5	0.14	0.06	1.0	10.34	0.60
6	2	Tyson Foods	621.6	25½	2	15⅞	1.27	12.5	0.53	0.04	0.3	4.20	3.78
114	262	UAL	161.9	105⅞	28	96¼	38.11	2.5	0.23	none	0.0	51.49	1.87
457	628	UGI	56.3	32	16½	27¾	3.03	9.2	0.64	2.14	7.7	21.34	1.30
511	488	UNC	47.7	13¾	3	8⅛	0.73	11.1	0.32	none	0.0	6.51	1.25
349	283	Union Bank	75.0	36⅝	14½	26¼	3.48	7.5	0.58	1.08	4.1	25.92	1.01
680	427	Union Camp	16.4	48⅛	20½	32	3.92	8.2	0.85	1.24	3.9	20.24	1.58
656	629	Union Carbide	20.7e	33⅛	10⅞	25¼	3.87	6.5	0.42	0.80	3.2	9.43	2.68
311	408	Union Electric	84.5	31¾	12	23¾	2.67	8.9	1.20	2.00	8.4	17.98	1.32
651	670	Union Pacific	21.2	86⅝	34¼	61½	5.23	11.8	1.04	2.20	3.6	36.35	1.69
NR	NR	Union Texas Petrol	NA	14½	5¾	10⅜	0.70	14.8	0.76	0.20	1.9	1.56	6.65
494	229	Unisys	51.1	48⅜	14⅞	25⅜	3.64	7.0	0.41	1.00	3.9	23.09	1.10
23	4	United Artists	369.8	32¼	4⅜	25¼	0.94	26.9	1.23	none	0.0	2.89	8.74
874	739	United Banks of Colo	–21.3	35½	13¼	13⅞	1.08	12.8	0.37	none	0.0	25.25	0.55
88	23	United Brands	187.9	19⅞	3½	14⅞	1.55	9.6	0.17	0.20	1.3	9.69	1.54
1015	922	United Financial	–99.6	11	1/32	1/32	–39.88	def	0.00	none	0.0	–5.10	NE
706	NR	United HealthCare	13.3b	15⅞	2⅝	4¼	–2.63	def	0.15	none	0.0	2.60	1.63
669	718	United Illuminating	18.8	36¼	9	24½	4.21	5.8	0.66	2.32	9.5	31.58	0.78
518	132	United Jersey Banks	46.9	32½	11⅜	21⅝	2.56	8.4	0.97	1.06	4.9	15.47	1.40
989	864	United Merchants	–73.3	21½	2¾	3⅜	–0.03	def	0.05	none	0.0	6.81	0.50
362	331	US Bancorp	73.1	31¼	10½	24	2.63	9.1	0.74	1.00	4.2	20.95	1.15
523	569	US Healthcare	46.4	22⅞	3⅜	6	0.18	33.3	0.39	0.16	2.7	3.09	1.94
999	920	US Home	–82.6	13	1⅝	2	–1.10	def	0.11	none	0.0	4.40	0.45
649	650	US Shoe	21.6	34¾	11½	22⅞	0.36	63.5	0.46	0.46	2.0	11.74	1.95
406	499	United Stationers	63.9	28¾	13	22⅛	1.50	14.8	0.40	0.32	1.4	8.60	2.57
747	671	United Technologies	5.9	60½	28½	38⅜	5.21	7.4	0.28	1.60	4.2	32.90	1.17
294	649	United Telecom	88.8	44½	17⅜	39⅞	1.53	26.1	1.29	1.92	4.8	15.02	2.65
NR	NR	Univar	NA	28	9⅜	22⅝	1.69	13.4	0.16	0.40	1.8	11.08	2.04
365	230	Universal	72.4	36¾	15¼	29⅝	3.60	8.2	0.20	1.28	4.3	21.04	1.41
216	437	Universal Foods	112.0	34⅝	12½	24½	1.67	14.7	0.55	0.72	2.9	10.27	2.39
920	NR	Universal Health	–37.8	20⅛	3	6½	0.00	NA	0.17	1.40	21.5	10.15	0.64
705	714	Unocal	13.4	51	15⅝	35⅞	–0.74	def	0.48	1.00	2.8	15.15	2.37
NR	NR	UNUM Corp	NA	31⅜	15⅜	26¼	2.47	10.6	0.55	0.48	1.8	28.53	0.92
80	45	Upjohn	201.3	53¾	7½	29¾	1.85	16.1	2.07	0.88	3.0	8.95	3.32
247	356	US West	100.0	62	27⅞	55⅝	6.04	9.2	1.16	3.52	6.3	40.18	1.38
740	745	USAir Group	7.1	53½	22	34	3.74	9.1	0.28	0.12	0.4	43.90	0.77
723	[illegible]	USF&G	9.7	48¾	17⅝	30⅜	3.03	10.0	0.45	2.64	8.7	20.93	1.45
NR	[illegible]	USG	NA	7¾	5⅜	5⅜	1.92	2.8	0.11	none	0.0	11.76	0.46
498	[illegible]	Uslico	50.0	31⅜	15⅜	23	3.07	7.5	0.51	0.96	4.2	23.98	0.96
662	[illegible]	USLife	20.3	49½	23⅞	34¾	3.94	8.8	0.48	1.36	3.9	50.06	0.69
341	[illegible]	[illegible]ST Inc	76.2	38½	14⅞	35⅛	2.72	12.9	3.20	1.48	4.2	7.28	4.82
838	58[illegible]	[illegible]	–13.6	39⅜	14½	26¼	1.94	13.5	0.44	1.40	5.3	18.26	1.44
613	585	[illegible] Power & Light	28.8	37¼	20⅜	30¾	2.75	11.2	1.78	2.32	7.5	18.46	1.67
252	277	[illegible]p United	98.5	21⅞	8⅝	19	1.99	9.6	0.58	1.12	5.9	14.47	1.31
981	916	[illegible]ergy	–65.9	23⅞	4½	7⅛	–0.63	def	0.24	none	0.0	12.71	0.56
190	NR	[illegible]	124.3	14⅝	1	10⅜	0.28	37.1	0.54	0.10	1.0	2.47	4.20

Note: Except as indicate[illegible]ges are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to stock company. Range is for pe[illegible]ch change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received in a spinoff. d: Does not inc[illegible] dividends given in another company as part of the dividend. e: Does not reflect special cash dividend paid. NA: Not available. NM: Not meaningful. NE: [illegible]ny. def: Deficit.

Sources: Forbes, William O'Neill & Co.

Rank 88	Rank 87	Company	5-year price change	1984-88 price range high	1984-88 price range low	Recent price	Latest 12-mo earnings per share	Price/ earnings ratio	Price/ sales ratio	Indicated annual dividend	Current yield	Book value (per share)	Recent price/ book value
724	414	Valley National	9.5%	50¼	20½	27¼	$0.83	32.8	0.48	$1.44	5.3%	$29.40	0.93
399	NR	Valmont Industries	66.0	22⅛	6¼	19½	2.28	8.6	0.17	0.33	1.7	12.26	1.59
106	NR	Valspar	169.0	40½	7⅝	23⅞	1.69	14.1	0.55	0.40	1.7	7.70	3.10
953	858	Varian Associates	–52.5	58½	18¼	26⅛	1.27	20.6	0.49	0.26	1.0	19.95	1.31
911	805	Varity Corp	–36.1	6⅛	1⅛	2⅞	0.34	8.5	0.26	none	0.0	1.49	1.93
304	142	VF	85.9	48¼	10⅞	28	2.64	10.6	0.75	0.84	3.0	14.43	1.94
NR	NR	Viacom	NA	30⅜	10	27⅛	NA	NA	1.24	none	0.0	9.81	2.77
15	NR	Village Super Market	458.6	24	3⅜	20¼	1.84	11.0	0.11	0.15	0.7	14.21	1.43
NR	NR	Vista Chemical	NA	61	17	44⅜	7.10	6.3	0.84	1.80	4.1	9.84	4.51
940	NR	Volt Info Sciences	–46.7	34¼	11¾	12	–0.08	def	0.17	none	0.0	14.10	0.85
NR	NR	Vons Cos	NA	13¾	6	12½	–0.23	def	0.12	none	0.0	5.69	2.20
160	209	Vulcan Materials	136.5	164	58	160½	13.34	12.0	1.60	3.92	2.4	54.80	2.93
NR	NR	VWR Corp	NA	28¼	8	20½	1.54	13.3	0.19	0.80	3.9	12.42	1.65
78	31	Wal-Mart Stores	203.8	42⅞	7⅝	29⅝	1.35	21.9	0.87	0.16	0.5	3.99	7.42
442	242	Walgreen	58.8	44⅞	14⅜	30⅜	2.10	14.5	0.38	0.68	2.2	10.12	3.00
991	903	Wang Laboratories	–77.2	37⅝	7½	8⅛	0.50	16.3	0.43	0.16	2.0	9.67	0.84
144	477	Warner Commun	142.8	39¼	8½	32⅝	2.53	12.9	1.02	0.56	1.7	9.13	3.57
142	172	Warner-Lambert	145.1	87½	28¾	72⅝	4.81	15.1	1.29	2.56	3.5	12.75	5.70
431	383	Washington Gas Light	60.5	30⅜	14¾	24⅞	2.52	9.9	0.64	1.88	7.6	18.80	1.32
121	NR	Washington Mutual	154.7	26⅞	3½	15	2.32	6.5	0.40	0.40	2.7	21.13	0.71
714	713	Washington National	11.8	37⅞	15⅝	27¼	–3.49	def	0.31	1.08	4.0	34.93	0.78
113	67	Washington Post	162.8	269	60¾	192½	23.05	8.4	1.82	1.56	0.8	47.80	4.03
67	154	Waste Management	232.1	48½	6⅞	38½	1.89	20.4	2.58	0.48	1.2	8.39	4.59
342	113	Weis Markets	76.0	41⅝	13⅜	28¼	1.77	16.0	1.12	0.50	1.8	9.97	2.83
64	98	Wells Fargo	238.2	71¼	15½	67	8.70	7.7	0.74	3.00	4.5	42.60	1.57
916	753	Wendy's Intl	–37.5	17¾	4⅛	5⅞	0.27	21.8	0.54	0.24	4.1	4.29	1.37
424	639	West Point-Pepperell	61.2	50½	17¼	41½	3.08	13.5	0.57	1.20	2.9	24.97	1.66
608	NR	Western Digital	30.6	32⅝	5⅞	11¾	1.54	7.6	0.38	none	0.0	9.26	1.27
NR	NR	Western Publishing	NA	24¾	8½	16½	1.33	12.4	0.63	none	0.0	7.02	2.35
938	51	Western S&L	–45.4	26⅝	3	3¼	0.08	42.7	0.05	none	0.0	6.04	0.54
1009	935	Western Union	–95.2	39¾	1⅝	1¾	–24.11	def	0.08	none	0.0	2.37	0.74
322	194	Westinghouse	81.3	75	19¾	49⅝	5.49	9.0	0.62	2.00	4.0	24.92	1.99
929	666	Westmoreland Coal	–41.7	27½	13½	14	–6.79	def	0.20	none	0.0	17.00	0.82
469	157	Westvaco	55.1	37½	14⅛	26⅞	3.10	8.7	0.82	0.92	3.4	18.15	1.48
128	267	Wetterau	150.3	26¾	8⅛	23⅝	1.69	14.0	0.13	0.56	2.4	8.79	2.69
738	728	Weyerhaeuser	7.2	40	16½	24⅛	2.56	9.4	0.64	1.20	5.0	16.99	1.42
937	888	Wheeling-Pittsburgh	–45.0	35⅝	5⅝	15¼	23.99	0.6	0.07	none	0.0	–84.95	NE
777	631	Whirlpool	–0.5	41½	18⅜	24⅛	2.12	11.4	0.39	1.10	4.6	18.83	1.28
191	738	Whittaker	123.6	44⅜	14½	41⅜	3.28	12.6	0.58	1.00	2.4	26.03	1.59
970	893	Wickes Cos	–60.5	35	6½	9⅝	0.17	56.6	0.13	none	0.0	24.85	0.39
294	492	Wicor	88.8	46	20¼	39⅞	4.32	9.2	0.37	2.68	6.7	31.36	1.27
280	491	Willamette Inds	91.6	64	14	42¼	6.32	6.7	0.65	1.20	2.8	24.24	1.74
721	573	Williams Cos	10.0	38	17⅝	30⅜	3.62	8.4	0.64	1.40	4.6	28.46	1.07
445	766	Wilson Foods	58.6	15	4¼	13⅞	0.65	21.3	0.11	none	0.0	7.65	1.81
563	508	Winn-Dixie Stores	40.7	59	25¾	40⅝	2.99	13.6	0.18	1.92	4.7	18.20	2.23
898	NR	Winnebago Industries	–31.1	20⅞	7	9⅛	0.11	83.0	0.54	0.40	4.4	6.25	1.46
256	294	Wisconsin Energy	97.3	32⅜	12⅞	27⅛	3.03	9.0	1.21	1.54	5.7	16.95	1.60
405	362	Wisconsin Public Svc	64.0	31½	12⅛	22¾	2.28	10.0	0.88	1.58	6.9	15.52	1.47
528	197	Witco	45.7	47⅜	18½	34¼	2.76	12.4	0.49	1.50	4.4	25.53	1.34
90	135	FW Woolworth	186.1	60¾	14⅞	50¼	4.24	11.9	0.41	1.64	3.3	26.44	1.90
402	268	Worthington Inds	65.5	25⅞	8	20⅞	1.46	14.3	0.91	0.44	2.1	7.04	2.97
428	343	WPL Holdings	60.5	30⅛	12⅞	22⅞	2.33	9.8	1.03	1.62	7.1	15.04	1.52
36	25	Wm Wrigley Jr	309.0	41¼	7½	35⅞	2.15	16.7	1.65	0.64	1.8	7.18	5.00
945	883	Wyman-Gordon	–47.9	32½	11¾	15¾	0.43	36.6	1.07	0.80	5.1	14.46	1.09
638	NR	Wyse Technology	23.2b	39¾	5⅞	8⅝	1.78	4.8	0.23	none	0.0	11.31	0.76
719	479	Xerox	10.4	85	33¼	54⅝	5.76	9.5	0.34	3.00	5.5	51.00	1.07
552	137	Yellow Freight Sys	42.4	42½	11⅝	30⅝	2.15	14.2	0.45	0.70	2.3	13.82	2.22
NR	NR	York International	NA	59¾	13½	53½	2.79	19.2	0.49	none	0.0	24.42	2.19
389	420	Zayre	67.9	43⅞	10⅞	24¾	0.12	def	0.31	0.40	1.6	13.03	1.90
948	732	Zenith Electronics	–50.4	38⅝	10	17⅝	–0.13	def	0.18	none	0.0	18.45	0.96
675	NR	Zenith National Insur	17.6	30½	9⅛	15½	2.24	6.9	0.67	0.80	5.2	12.62	1.23
292	597	Zurn Industries	89.0	30¾	10⅝	25¾	1.68	15.3	0.74	0.68	2.6	15.62	1.65

Note: Except as indicated, price changes are from Dec. 31, 1983 to Nov. 16, 1988. NR: Not ranked due to merger, spinoff, reorganization, new issue or conversion to stock company. Range is for period since such change. a: Three-year price change. b: Four-year price change. c: Price change does not reflect the value of shares received in a spinoff. d: Does not include stock dividends given in another company as part of the dividend. NA: Not available. NM: Not meaningful. NE: Negative equity. def: Deficit.

Sources: Forbes; William O'Neill & Co.

WHO'S WHERE IN PROFITABILITY

The five-year average return on equity of America's largest corporations rose to 13.9% last year, the best showing since 1984's results.

By Steve Kichen

If anyone still doubts that there is a difference between Wall Street and the real economy, the doubts stop here. The Dow is down 25% from its precrash high, but the five-year average return on equity of the 1,116 companies we report on in these pages jumped to an impressive 13.9%. The latest 12-month return on equity proved even better—14.1%—indicating that long-term profitability may climb even higher.

Firms increase their per-share book value by making money and repurchasing shares. An analysis by Forbes of book value growth over the past six years for all 1,116 companies shows that businesses have been incredibly consistent in maintaining year-to-year book value growth of 12% during this period. This means that earnings of the average company had to grow at least 12% a year just for a firm to maintain the same return on equity as in the previous year. Gains in profitability came from rising profits rather than shrinking book values.

Reebok International, a designer and marketer of athletic footwear, is once again the top-ranked corporation in long-term profitability. But note the latest 12-month profitability of 27.7%. Reebok's reign at the top won't last much longer. In fact, of the 100 top-ranked corporations, 77 firms show 12-month results below their long-term performance. Eight of the leading 100 companies, including former stars such as Subaru of America and Emerson Radio, are now losing money.

A number of the major businesses that either were acquired or sought the sanctuary of a leveraged buyout during the past year were companies that fell below the median performance of their peers. In Forbes' 40th Annual Report on American Industry *(Jan. 11, 1988)*, for example, Firestone had a five-year average return on equity of 3.3% and a 12-month result of 6.4%, whereas the medians for the tire and rubber subindustry were at 5.9% and 11.1%, respectively. Bridgestone of Japan acquired Firestone in April 1988.

Contrarians might take interest in the bottom-ranked companies. Bethlehem Steel, for instance, has a negative five-year average return on equity, but over the last 12 months it earned 26.1%. Breakouts from a poor five-year pattern are no guarantee that a turnaround is at hand, but Bethlehem Steel, Amax, MA Hanna, Fluor, Copperweld and others may warrant a second look. ■

mpany	rank	Return on equity 5-year average	Latest 12 months	Company	rank	Return on equity 5-year average	Latest 12 months	Company	rank	Return on equity 5-year average	Latest 12 months
ebok Intl	1	200+%b	27.7%	Tyson Foods	63	30.7%	30.2%	First Union	125	23.4%	16.7%
lta Woodside Inds	2	200+a	37.8	Tambrands	64	30.6	27.4	H&R Block	126	23.3	23.8
nTrust Savings	3	150.6b	6.7	Seagate Technology	65	30.5	2.2	New York Times	127	23.3	19.5
chor Glass	4	133.2b	5.1	Hasbro	66	30.4	8.6	Tandy	128	23.3	21.1
son	5	94.4a	19.3	Dow Jones	67	30.2	27.7	Albany International	129	23.3b	23.8
crosoft	6	73.9	43.2	Abbott Laboratories	68	29.9	34.5	Hartford Steam Boiler	130	23.3	31.6
stern S&L	7	69.6	1.3	Food Lion	69	29.7	31.4	American Stores	131	23.2	12.0
grim's Pride	8	68.4b	def	Compaq Computer	70	29.7b	45.6	Burlington Coat	132	23.2	14.0
it Buy Co	9	60.2	3.1	Jefferson Smurfit	71	29.7	62.9	Dean Foods	133	23.2	17.8
rysler	10	59.4b	14.8	Cray Research	72	29.5	16.5	Shaw Industries	134	23.2	24.1
stern Publishing	11	58.4a	18.9	Standard Products	73	29.5	25.7	Handleman	135	23.1	23.0
rnival Cruise	12	58.0	29.4	VF	74	29.4	18.3	Eli Lilly	136	23.1	23.2
ghland Superstrs	13	57.7	5.4	Comdisco	75	29.3	3.6	HJ Heinz	137	23.0	26.0
Claiborne	14	54.8	29.8	SmithKline	76	28.8	13.3	Apple Computer	138	22.9	46.5
se Technology	15	52.4	15.7	JWP	77	28.7	22.2	Browning-Ferris Inds	139	22.8	23.8
nsolidated Stores	16	51.9	11.7	Kelly Services	78	28.6	32.2	Giant Food	140	22.8	24.1
1 Microsystems	17	46.6	22.4	Marion Laboratories	79	28.4	46.1	Teledyne	141	22.7	23.0
it Capital Holding	18	45.8b	20.9	Philip Morris Cos	80	28.4	33.2	Holly Corp	142	22.7	99.6
ited	19	45.6	25.5	Intergraph	81	27.7	15.4	Melville	143	22.7	21.3
dson Foods	20	44.9	5.3	Home Depot	82	27.4	22.3	Gillette	144	22.6	44.8
rman Intl	21	44.7a	19.1	Family Dollar Stores	83	27.4	17.9	McDonald's	145	22.6	21.4
yfair Super Mkts	22	42.6	39.6	Fin Cp Santa Barbara	84	27.3	5.6	PepsiCo	146	22.4	28.5
ce Co	23	42.4	24.9	EG&G	85	27.0	22.3	Nacco Industries	147	22.3	20.0
ited HealthCare	24	41.8	def	Manor Care	86	26.8	def	Rubbermaid	148	22.3	22.1
iliated Pubs	25	41.1	def	Emerson Radio	87	26.8	def	Jostens	149	22.3	59.0
logg	26	40.4	38.2	Maytag	88	26.7	33.0	Sequa	150	22.2	8.1
neral Motors EDS	27	40.2	36.5	Gap	89	26.4	23.1	Marriott	151	22.2	27.4
virodyne Inds	28	39.3b	34.6	Circus Circus	90	26.3	28.7	Brunswick	152	22.2	25.0
lden West Finl	29	39.2	16.4	Himont	91	26.3b	30.6	IBM	153	22.1	13.7
hi	30	38.6b	11.3	CBS	92	26.2	93.6	Toys "R" Us	154	22.0	19.4
I	31	38.5b	def	Ryland Group	93	26.1	25.4	Walgreen	155	22.0	20.8
llins	32	38.4	48.1	Bruno's	94	26.0	18.9	Time Inc	156	21.8	22.6
mmerce Clearing	33	37.5	28.9	20th Century Inds	95	25.9	24.6	Herman Miller	157	21.8	19.1
Holdings	34	36.5	38.0	Apollo Computer	96	25.6	4.1	Lomas Financial	158	21.8	def
Healthcare	35	36.3	5.8	First Executive	97	25.6	12.3	Gannett	159	21.7	21.9
rk IV Industries	36	36.0	23.5	Big Bear	98	25.4	17.7	PH Glatfelter	160	21.7	26.7
lumbia S&L	37	35.8	1.1	Coca-Cola	99	25.2	31.4	Pfizer	161	21.5	19.8
l-Mart Stores	38	35.8	33.8	General Dynamics	100	25.2	22.7	McGraw-Hill	162	21.3	21.7
ico	39	35.7	26.0	Reliance Group	101	25.2	17.9	American Family	163	21.3	19.8
kheed	40	35.5	32.1	Ecolab	102	25.2	9.7	Dillard Dept Stores	164	21.3	14.8
rsh & McLennan	41	35.4	38.2	First Amer Financial	103	25.1	9.4	Rockwell Intl	165	21.3	25.3
dent Loan	42	35.4	40.6	Fuqua Industries	104	25.0	35.0	Waste Management	166	21.3	22.5
ston Purina	43	35.2	41.1	Natl Western Life	105	24.9	7.1	Fred Meyer	167	21.2	14.4
ter Home Prod	44	34.8	35.8	Merck	106	24.7	53.3	RJR Nabisco	168	21.2	22.9
lex	45	34.5	20.4	CVN Cos	107	24.6	8.1	Super Valu Stores	169	21.2	18.1
ikosh Truck	46	34.3	15.1	General Host	108	24.6	def	Squibb	170	21.2	27.8
cuit City Stores	47	34.3	28.8	USG	109	24.5	16.3	ConAgra	171	21.1	20.9
ter Continental	48	34.3	41.2	Equifax	110	24.5	26.1	Valspar	172	21.1	21.9
n & Bradstreet	49	34.2	23.6	Times Mirror	111	24.4	19.8	Olsten	173	21.1	26.4
neral Cinema	50	34.1	19.7	Bristol-Myers	112	24.3	25.0	Clorox	174	20.9	20.2
ntinental Info Sys	51	34.1	0.2	Noxell	113	24.2	23.2	First Federal Mich	175	20.8b	4.9
rgan Products Ltd	52	33.5b	13.9	Fleetwood Enterpr	114	24.1	16.1	Snap-on Tools	176	20.7	24.0
luxe Corp	53	33.3	28.6	Pall	115	24.1	21.4	Leggett & Platt	177	20.7	17.0
onaut Group	54	33.1a	47.0	Humana	116	24.0	22.2	Quaker Oats	178	20.6	19.9
gressive	55	33.0	22.3	Philips Industries	117	24.0	20.7	Kraft	179	20.5	61.8
T Inc	56	31.8	37.4	Loews	118	23.9	28.7	Shoney's	180	20.5	17.6
mestead Financial	57	31.8	def	MDC Holdings	119	23.9	def	Anheuser-Busch Cos	181	20.5	24.1
shington Post	58	31.3	48.2	Rite Aid	120	23.8	17.4	Pitney Bowes	182	20.4	22.2
arming Shoppes	59	31.2	14.8	Rorer Group	121	23.5	14.1	E-Systems	183	20.4	16.7
dag	60	30.7	49.9	Circle K	122	23.5	14.8	Marshall Industries	184	20.4	22.0
d Motor	61	30.7	27.7	Precision Castparts	123	23.5	21.9	Morton Thiokol	185	20.4	15.8
aru of America	62	30.7	def	CDI Corp	124	23.4	27.4	CoreStates Financial	186	20.4	16.9

: Not available. NE: Negative equity. def: Deficit. a: Three-year average. b: Four-year average.

WHO'S WHERE IN PROFITABILITY

Company	rank	Return on equity 5-year average	Return on equity Latest 12 months
Premier Industrial	187	20.3%	24.0%
Sara Lee	188	20.2	21.0
Ogilvy Group	189	20.1	17.2
Intl Flavors & Frags	190	20.1	19.1
CR Bard	191	20.1	24.8
Shearson Lehman	192	20.0	1.3
Nalco Chemical	193	20.0	22.3
Albertson's	194	20.0	22.7
Stanhome	195	19.9	27.4
Hercules	196	19.8	7.5
State Street Boston	197	19.8	18.8
Interpublic Group	198	19.8	20.0
United Stationers	199	19.8	17.4
HON Industries	200	19.8	18.6
Martin Marietta	201	19.7	39.0
Worthington Inds	202	19.7	21.9
Great Lakes Chemical	203	19.6	23.8
Vista Chemical	204	19.6[a]	72.2
AMP	205	19.6	22.5
Southwestern Pub Svc	206	19.6	16.8
Consolidated Papers	207	19.5	23.9
Wm Wrigley Jr	208	19.5	29.9
A Schulman	209	19.5	22.1
James River Corp Va	210	19.4	10.7
Emerson Electric	211	19.4	19.8
Flowers Industries	212	19.3	21.9
Northern Telecom	213	19.3	13.8
Rohr Industries	214	19.3	9.5
Nordstrom	215	19.3	20.3
Ametek	216	19.3	13.8
Minn Mining & Mfg	217	19.3	21.7
Super Rite Foods	218	19.2	18.2
First Boston	219	19.2	11.0
Savannah Foods	220	19.1	11.4
Johnson & Johnson	221	19.1	27.5
Weis Markets	222	19.0	17.8
Hannaford Bros	223	19.0	19.4
Hechinger	224	19.0	13.4
Computer Associates	225	19.0[a]	24.6
First Wachovia	226	19.0	16.7
Spiegel	227	19.0	15.9
RR Donnelley & Sons	228	18.9	17.0
Tucson Electric	229	18.8	16.4
Torchmark	230	18.8	22.0
Old Kent Financial	231	18.8	17.6
Standard Register	232	18.8	14.2
Brown-Forman	233	18.8	18.8
CityFed Financial	234	18.8	def
Chicago Pacific	235	18.8	19.3
Raytheon	236	18.7	26.0
Aon	237	18.7	14.8
Universal	238	18.7	18.0
Sherwin-Williams	239	18.7	18.4
Northrop	240	18.7	23.7
NIKE	241	18.6	35.7
Loral	242	18.6	19.0
American Brands	243	18.6	22.3
GenCorp	244	18.6	NE
Southmark	245	18.6	def
Hershey Foods	246	18.5	25.0
Barnett Banks	247	18.5	16.9
Cooper Cos	248	18.5	def
AG Edwards	249	18.5%	9.8%
Masco	250	18.5	19.1
SouthTrust	251	18.5	16.4
Holly Farms	252	18.4	16.5
Medtronic	253	18.4	23.4
Pep Boys	254	18.4	14.2
Zayre	255	18.4	def
Automatic Data	256	18.3	18.8
Alexander & Baldwin	257	18.3	26.9
Yellow Freight Sys	258	18.3	15.6
Winn-Dixie Stores	259	18.3	16.6
Genuine Parts	260	18.3	22.7
Capital Cities/ABC	261	18.3	15.5
La-Z-Boy Chair	262	18.3	15.4
Westinghouse	263	18.3	22.0
Collins Foods Intl	264	18.2	13.6
UtiliCorp United	265	18.2	13.7
Kinder-Care	266	18.2	10.1
Sovran Financial	267	18.2	17.9
General Electric	268	18.1	17.2
Upjohn	269	18.1	20.7
Winnebago Industries	270	18.1	1.8
Shaklee	271	18.1	8.6
Hillenbrand Inds	272	18.0	22.5
PHM Corp	273	18.0	1.3
Equitable Resources	274	18.0	8.0
CPC International	275	17.9	26.3
PHH Corp	276	17.9	7.0
Midlantic	277	17.9	17.2
Ames Dept Stores	278	17.9	9.7
Dibrell Brothers	279	17.9	19.0
Hilton Hotels	280	17.9	20.0
Sonoco Products	281	17.8	22.0
Cardinal Distribution	282	17.8	22.5
Ethyl	283	17.8	23.6
Tyco Laboratories	284	17.7	29.4
Hubbell	285	17.7	19.5
Exxon	286	17.7	16.4
National Service	287	17.7	17.0
Farmers Group	288	17.7	19.1
Loctite	289	17.6	23.3
SCI Systems	290	17.6	13.9
Bausch & Lomb	291	17.6	16.2
Sysco	292	17.5	18.2
New England Electric	293	17.4	def
Potomac Electric	294	17.4	16.8
SunTrust Banks	295	17.4	18.0
Kaman	296	17.4	16.9
Ryder System	297	17.4	9.5
Harcourt Brace	298	17.4	NE
Ball Corp	299	17.4	14.2
Berkshire Hathaway	300	17.4	12.1
Newell Co	301	17.4	16.1
Fleet/Norstar Finl	302	17.4	14.6
Dover	303	17.3	20.9
Carolina Freight	304	17.3	4.7
Kimball International	305	17.3	15.3
PNC Financial	306	17.3	16.5
Meredith	307	17.3	10.5
Russell	308	17.3	18.0
Reynolds & Reynolds	309	17.3	9.7
Alaska Air Group	310	17.3	11.6
First of America Bank	311	17.3%	13.9
TBC Corp	312	17.2	27.9
Citizens & Southern	313	17.2	17.9
Rohm & Haas	314	17.2	21.4
American Intl Group	315	17.2	20.7
Knight-Ridder	316	17.2	17.7
Thomas & Betts	317	17.1	19.7
Smithfield Foods	318	17.1	36.1
Curtice Burns Foods	319	17.1	18.7
Whirlpool	320	17.1	11.3
Pioneer Hi-Bred Intl	321	17.1	11.3
Lowe's Cos	322	17.0	10.3
Petrie Stores	323	17.0	7.9
Commonwealth En	324	17.0	10.6
Tribune	325	17.0	17.4
Mercantile Stores	326	17.0	15.0
Bancorp Hawaii	327	16.9	20.3
Banc One	328	16.9	18.5
Vulcan Materials	329	16.8	24.3
Getty Petroleum	330	16.8	30.1
Wetterau	331	16.8	19.2
Kansas Power & Light	332	16.8	14.5
Illinois Tool Works	333	16.7	21.4
Super Food Services	334	16.7	17.3
Dairy Mart	335	16.7	15.8
Laclede Gas	336	16.7	14.3
PPG Industries	337	16.7	22.6
Capital Holding	338	16.7	12.8
Eaton	339	16.7	19.5
Kellwood	340	16.6	19.3
Pillsbury	341	16.6	5.2
Helene Curtis Inds	342	16.6	13.2
Cincinnati Financial	343	16.6	18.8
Diebold	344	16.6	10.0
Minnesota P&L	345	16.6	12.6
Hewlett-Packard	346	16.5	17.2
Freeport-McMoRan	347	16.5	31.9
Square D	348	16.5	16.8
Rose's Stores	349	16.5	5.8
Old Republic Intl	350	16.5	14.5
Schultz Sav-O Stores	351	16.4	17.6
San Diego G&E	352	16.4	14.5
Western Digital	353	16.4	18.0
Ipalco Enterprises	354	16.4	14.9
Safeco	355	16.4	16.2
NCNB	356	16.3	13.3
General Motors	357	16.3	12.7
Central & So West	358	16.3	14.9
McCormick & Co	359	16.2	12.2
No States Power	360	16.2	14.8
Crestar Financial	361	16.2	13.4
Illinois Power	362	16.1	8.2
Longs Drug Stores	363	16.1	18.1
SCEcorp	364	16.1	16.3
WPL Holdings	365	16.1	15.5
Prime Computer	366	16.1	9.6
Wisconsin Energy	367	16.0	17.9
May Dept Stores	368	16.0	17.9
South Carolina Natl	369	16.0	15.3
Campbell Soup	370	16.0	14.0
Witco	371	16.0	10.8
Schering-Plough	372	16.0	25.7

NA Not available NE Negative equity def Deficit. a Three-year average. b. Four-year average

Company	Return on equity rank	5-year average	Latest 12 months
Avery International	373	16.0%	10.5%
Baltimore G&E	374	16.0	15.9
El Paso Electric	375	16.0	6.8
United Jersey Banks	376	16.0	16.5
Household Intl	377	16.0	22.6
Dayton Hudson	378	15.9	11.6
Northeast Utilities	379	15.9	11.4
Florida Natl Banks	380	15.9	8.3
Peoples Energy	381	15.9	16.2
PacifiCorp	382	15.9	15.1
Dixie Yarns	383	15.9	11.1
Zenith National Ins	384	15.9	17.7
Marshall & Ilsley	385	15.9	16.2
Warner-Lambert	386	15.9	37.7
Goodyear	387	15.9	25.1
Salomon	388	15.9	6.5
Pentair	389	15.8	20.0
KeyCorp	390	15.8	12.2
Ohio Mattress	391	15.8	12.8
Dollar General	392	15.8	5.5
Centel	393	15.8	14.7
NCR	394	15.8	20.4
Arden Group	395	15.8	45.4
Service Corp Intl	396	15.8	12.1
Florida Progress	397	15.8	13.8
Commonwealth Ed	398	15.8	10.6
HF Ahmanson	399	15.7	10.3
HB Fuller	400	15.7	14.4
Dominion Bankshares	401	15.7	15.5
Shawmut National	402	15.7	14.7
Strawbridge	403	15.7	13.1
Boeing	404	15.7	11.6
Kimberly-Clark	405	15.6	23.0
Stanley Works	406	15.6	15.8
BayBanks	407	15.6	16.7
WW Grainger	408	15.6	18.3
Wisconsin Public Svc	409	15.6	14.7
AMR	410	15.5	13.1
Armstrong World Inds	411	15.5	17.9
National City	412	15.5[b]	15.1
Borden	413	15.5	18.0
Holiday	414	15.5	NE
Boston Edison	415	15.4	8.6
Ingles Markets	416	15.4[b]	12.4
CNA Financial	417	15.4	17.4
Texas Utilities	418	15.4	13.1
Ameritech	419	15.4[b]	16.5
FW Woolworth	420	15.4	16.0
Echlin	421	15.4	10.3
Boatmen's Bancshares	422	15.3	12.2
AmSouth Bancorp	423	15.3	13.1
Houston Industries	424	15.3	12.6
Dexter	425	15.3	12.8
Guilford Mills	426	15.3	14.3
Iowa-Illinois G&E	427	15.2	13.4
Alltel	428	15.2	21.1
Allegheny Power	429	15.2	13.8
Bank of New England	430	15.2	15.5
American Greetings	431	15.2	6.9
K mart	432	15.2	16.4
Arvin Industries	433	15.1	2.7
Signet Banking	434	15.1	25.9

Company	Return on equity rank	5-year average	Latest 12 months
Southern Company	435	15.1%	12.0%
Centerior Energy	436	15.1	10.1
Delchamps	437	15.1	13.6
Cooper Tire & Rubber	438	15.1	16.2
Bank of New York	439	15.1	17.4
Bindley Western Inds	440	15.1	3.9
Multimedia	441	15.1[a]	NE
Grumman	442	15.0	3.1
Coastal Corp	443	15.0	12.4
Willamette Inds	444	15.0	26.1
Ohio Edison	445	15.0	10.8
Nucor	446	15.0	15.5
Delmarva Power & Lt	447	15.0	12.3
GAF	448	15.0	16.8
Meridian Bancorp	449	15.0	12.0
Gt Western Financial	450	14.9	10.4
First American	451	14.9	8.9
Kentucky Central Life	452	14.9	10.0
Scana	453	14.9	13.3
Millipore	454	14.9	16.2
Coachmen Industries	455	14.9	2.8
Southwest Gas	456	14.8	13.8
BellSouth	457	14.8[b]	13.9
Longview Fibre	458	14.8	33.0
TECO Energy	459	14.8	14.6
Roadway Services	460	14.8	10.2
Union Electric	461	14.7	14.8
American Express	462	14.7[b]	16.8
Walt Disney	463	14.7	27.1
MNC Financial	464	14.7	17.6
Figgie Intl	465	14.6	18.0
First Tennessee Natl	465	14.6	11.9
Trinova	467	14.6	13.2
Jamesway	468	14.6	8.2
Detroit Edison	469	14.6	9.5
Uslico	470	14.6	12.8
Enron	471	14.6[b]	5.0
Bergen Brunswig	472	14.6	18.2
Cincinnati Bell	473	14.5	19.0
Masco Industries	474	14.5[a]	13.2
FMC	475	14.5[b]	NE
Bell Atlantic	476	14.5[b]	14.9
Moore Corp	477	14.5	14.3
Bowater	478	14.4	20.1
Healthco Intl	479	14.4	10.7
Monarch Capital	480	14.4	6.6
Duke Power	481	14.4	14.4
Carter-Wallace	482	14.4	15.8
Piedmont Natural Gas	483	14.4	18.4
Consolidated Edison	484	14.4	13.3
National Medical	485	14.4	15.8
Indiana National	486	14.4	13.1
Oxford Industries	487	14.3	def
Hanover Insurance	488	14.3	22.2
JP Morgan & Co	489	14.3	19.7
TRW	490	14.3	19.3
Procter & Gamble	491	14.3	17.5
Cincinnati G&E	492	14.3	11.9
Consol Natural Gas	493	14.2	12.5
PaineWebber Group	494	14.2	3.5
Computer Sciences	495	14.2	14.0
Fleming Cos	496	14.2	9.0

Company	Return on equity rank	5-year average	Latest 12 months
Toro	496	14.2%	24.8%
Mapco	498	14.2	19.4
Society	499	14.2	15.1
Tecumseh Products	500	14.2	12.2
Brooklyn Union Gas	501	14.2	13.7
Carolina Power & Lt	502	14.2	8.0
Universal Foods	503	14.1	16.2
Village Super Market	504	14.1	14.7
United Artists	505	14.1	32.5
Culbro	506	14.1	6.3
Nynex	507	14.1[b]	14.2
Rochester Telephone	508	14.1	12.6
Morrison	509	14.1	17.5
American Natl Ins	510	14.1	5.6
Phillips-Van Heusen	511	14.0	54.8
Provident Life & Acc	512	14.0	6.5
Lubrizol	513	14.0	11.3
Washington Gas Light	514	14.0	13.4
Alco Standard	515	14.0	18.6
Esselte Business Sys	516	14.0	13.4
USAir Group	517	14.0	8.5
Atlantic Energy	518	13.9	14.5
So N England Tele	519	13.9	14.0
Pinnacle West	520	13.9	8.2
Bankers Trust NY	521	13.9	26.2
Orange & Rockland	522	13.8	14.5
Oklahoma G&E	523	13.8	17.0
US West	524	13.8[b]	15.0
Johnson Controls	525	13.8	13.6
FPL Group	526	13.8	13.9
Ogden	527	13.8	14.9
Amoco	528	13.8	17.1
American General	529	13.8	10.0
General Re	530	13.8	18.1
Iowa Resources	531	13.7	9.5
Carlisle Cos	532	13.7	12.6
Southwestern Bell	533	13.7[b]	12.2
Nashua	534	13.7	14.8
SPX	535	13.7	11.2
Bemis	536	13.7	16.1
Pacific Telesis	537	13.7[b]	13.9
CalFed	538	13.6[b]	11.6
Louisville G&E	539	13.6	13.5
Litton Industries	540	13.5	15.7
First Fidelity Bncp	541	13.5[b]	11.2
Federal Paper Board	542	13.5	22.7
Consol Freightways	543	13.5	13.5
National Fuel Gas	544	13.5	10.8
Republic New York	545	13.5	12.1
Selective Insurance	546	13.5	23.5
Chubb	547	13.4	16.2
Owens & Minor	548	13.4	11.7
Ruddick	549	13.4	14.0
Contel	550	13.4	9.0
United Brands	551	13.3	16.0
American President	552	13.3[b]	11.8
Pub Svc Enterprise	553	13.3	13.7
Huntington Bshs	554	13.3	13.7
Washington Mutual	555	13.3[b]	11.0
Kansas City P&L	556	13.3	13.6
Scott Paper	557	13.3	23.6
Independent Ins	558	13.3	7.7

NA: Not available. NE: Negative equity. def: Deficit. a: Three-year average. b: Four-year average.

VHO'S WHERE IN PROFITABILITY

pany	Return on equity rank	5-year average	Latest 12 months	Company	Return on equity rank	5-year average	Latest 12 months	Company	Return on equity rank	5-year average	Latest 12 months
Donnell Douglas	559	13.3%	10.0%	Geo A Hormel	621	12.4%	16.2%	Tyler	683	11.2%	13.5%
tex	560	13.2	7.7	Temple-Inland	622	12.4[b]	19.8	Pacific Enterprises	684	11.2	13.8
fic G&E	561	13.2	7.7	Philadelphia Elec	623	12.4	14.2	General Public Utils	685	11.1	15.6
inion Resources	562	13.2	14.2	Std Commercial	624	12.4	7.3	Middle South Utils	686	11.1	7.2
co	563	13.2	8.3	Blount	625	12.4	3.2	Colgate-Palmolive	687	11.1	19.3
ral Express	564	13.2	15.1	Commerce Bcshs	626	12.4	13.4	Unocal	688	11.1	def
dard Shares	565	13.2	10.8	Lincoln National	627	12.4	5.5	Mead	689	11.0	26.4
vn Cork & Seal	566	13.2	14.4	Wicor	628	12.4	13.8	Gt Northern Nekoosa	690	11.0	25.2
per	567	13.1	12.9	Federal-Mogul	629	12.3	13.8	Chevron	691	10.9	13.1
Multifoods	568	13.1	10.0	Home Federal S&L	630	12.3[b]	12.4	Owens-Corning	692	10.9[b]	NE
Finch	569	13.1	15.0	First Bank System	631	12.3	11.4	Scotty's	693	10.9	2.5
lem Computers	570	13.1	12.4	Amdahl	632	12.3	25.5	Corning Glass Works	694	10.9	19.3
ucky Utilities	571	13.1	15.9	Seagram	633	12.3	13.3	CalMat	695	10.8	13.3
orp	572	13.1	10.0	TW Services	634	12.2	14.3	MCA	696	10.8	7.1
ic Service Colo	573	13.1	15.9	Baxter International	635	12.2	10.1	Continental Corp	697	10.7	4.0
, Roebuck	574	13.1	10.7	Paccar	636	12.2	20.6	Hughes Supply	698	10.7	11.5
Drug	575	13.1	16.3	Bassett Furniture Ind	637	12.2	6.9	Edison Bros Stores	699	10.7	def
rity Pacific	576	13.0	13.3	American Medical	638	12.2	11.1	Air Prods & Chems	700	10.6	18.9
orne Freight	577	13.0	5.6	American Cyanamid	639	12.1	16.2	Atlantic Richfield	701	10.6	26.1
man & Broad	578	13.0	14.4	Amer Water Works	640	12.1	10.8	Turner	702	10.6	6.5
ral Ill Pub Svc	579	13.0	14.0	Pennsylvania P&L	641	12.1	14.2	Omnicom Group	703	10.6[b]	19.2
tcorp	580	12.9	14.7	DPL	642	12.1	11.7	NCH Corp	704	10.5	18.6
er-Hannifin	581	12.9	13.1	Niagara Mohawk Pwr	643	12.1	7.2	Archer-Daniels	705	10.5	14.5
hem	582	12.8	18.8	Digital Equipment	644	12.1	17.5	Union Carbide	706	10.5	41.0
tar	583	12.8	3.3	Public Service NM	645	12.0	def	Lancaster Colony	707	10.5	16.0
nison Mfg	584	12.8	14.6	Comerica	646	12.0	19.4	GlenFed	708	10.4[a]	15.5
er	585	12.8	18.6	Union Texas Petrol	647	12.0[a]	44.9	West Point-Pepperell	709	10.4	12.3
ester G&E	586	12.8	9.3	Atlanta Gas Light	648	12.0	12.8	United Illuminating	710	10.4	13.3
enney	587	12.8	15.5	Transamerica	649	12.0	13.6	Coleman	711	10.3	13.3
Products	588	12.8	def	Central Hudson G&E	650	11.9	8.1	Stone Container	712	10.3	39.3
States Utils	589	12.8	4.1	First Maryland Bncp	651	11.9	12.1	Quantum Chemical	713	10.3	35.6
	590	12.7	15.9	GTE	652	11.9	15.1	Barnes Group	714	10.2	16.1
Health Services	591	12.7[a]	14.0	Briggs & Stratton	653	11.9	9.6	Zurn Industries	715	10.2	10.8
ar	592	12.7	15.3	Southwest Airlines	654	11.9	9.8	Mobil	716	10.2	12.6
on Dickinson	593	12.7	18.5	Southeast Banking	655	11.9	18.8	Aetna Life & Cas	717	10.2	11.6
-Fillauer	594	12.7	8.6	Union Camp	656	11.8	19.4	Ferro	718	10.2	16.9
art	595	12.7	14.2	Westvaco	657	11.8	17.1	Riggs National	719	10.2	7.0
vn Group	596	12.7	12.0	Montana Power	658	11.8	9.4	Church's Fried	720	10.1	1.6
vest Energy	597	12.7	16.0	Wells Fargo	659	11.8	20.4	Central Maine Power	721	10.1	14.8
Island Lighting	598	12.7	7.9	Engelhard	660	11.7	7.8	Caesars World	722	10.1	31.0
dy's Intl	599	12.7	6.3	Valmont Industries	661	11.7	18.6	American Building	723	10.1	8.9
most Corp of Am	600	12.7	11.6	El du Pont	662	11.6	15.1	Travelers	724	10.1	def
rican Electric	601	12.6	13.7	Interlake	663	11.6	17.9	Lincoln Electric	725	10.1	16.4
tate E&G	602	12.6	8.9	Portland General	664	11.6	8.1	Greyhound	726	10.0	2.8
esson	603	12.6	13.4	Marsh Supermarkets	665	11.5	13.4	Nortek	727	10.0	def
run	604	12.6	11.4	Delta Air Lines	666	11.5	16.8	Puget Sound P&L	728	9.9	13.9
dex International	605	12.6	9.0	IE Industries	667	11.5	13.6	Grow Group	729	9.9	def
rson-Pilot	606	12.6	7.1	DeSoto	668	11.5	3.0	Kansas Gas & Elec	730	9.9	10.5
erica	607	12.6	17.7	Dow Chemical	669	11.5	36.9	Burlington Northern	731	9.9	8.2
ancorp	608	12.6	12.6	Harsco	670	11.4	15.4	Sundstrand	732	9.9	def
Convenience	609	12.6	0.3	Hawaiian Electric	671	11.4	10.5	WR Berkley	733	9.9	22.4
of Boston	610	12.6	11.7	Manufacturers Natl	672	11.3	9.2	Diversified Energies	734	9.9	13.3
hoe	611	12.6	3.1	Constar Intl	673	11.3	11.3	Union Bank	735	9.9	13.4
a General	612	12.5	14.1	Utah Power & Light	674	11.3	14.9	Eastman Kodak	736	9.8	22.1
ill Lynch	613	12.5	5.8	Great A&P Tea	675	11.3	13.6	Danaher	737	9.8	35.8
Bancorp	614	12.5	16.3	Ohio Casualty	676	11.3	11.9	Outboard Marine	738	9.8	14.0
uesne Light	615	12.5	11.0	Hospital Corp	677	11.3	13.9	Potlatch	739	9.8	16.9
m First Savings	616	12.5[b]	6.6	United Technologies	678	11.3	15.8	Central Steel & Wire	740	9.8	21.8
ral Development	617	12.5	9.1	Motorola	679	11.2	14.1	No'western Natl Life	741	9.7	8.3
er Products	618	12.5	14.3	Pope & Talbot	680	11.2	22.1	Universal Health	742	9.7	0.0
marx	619	12.5	10.8	Rykoff-Sexton	681	11.2	12.6	American Bankers	743	9.6	16.6
	620	12.4	9.2	BMA Corp	682	11.2	5.3	Mercantile Bancorp	744	9.6	2.8

Not available NE Negative equity def Deficit. a: Three-year average. b: Four-year average.

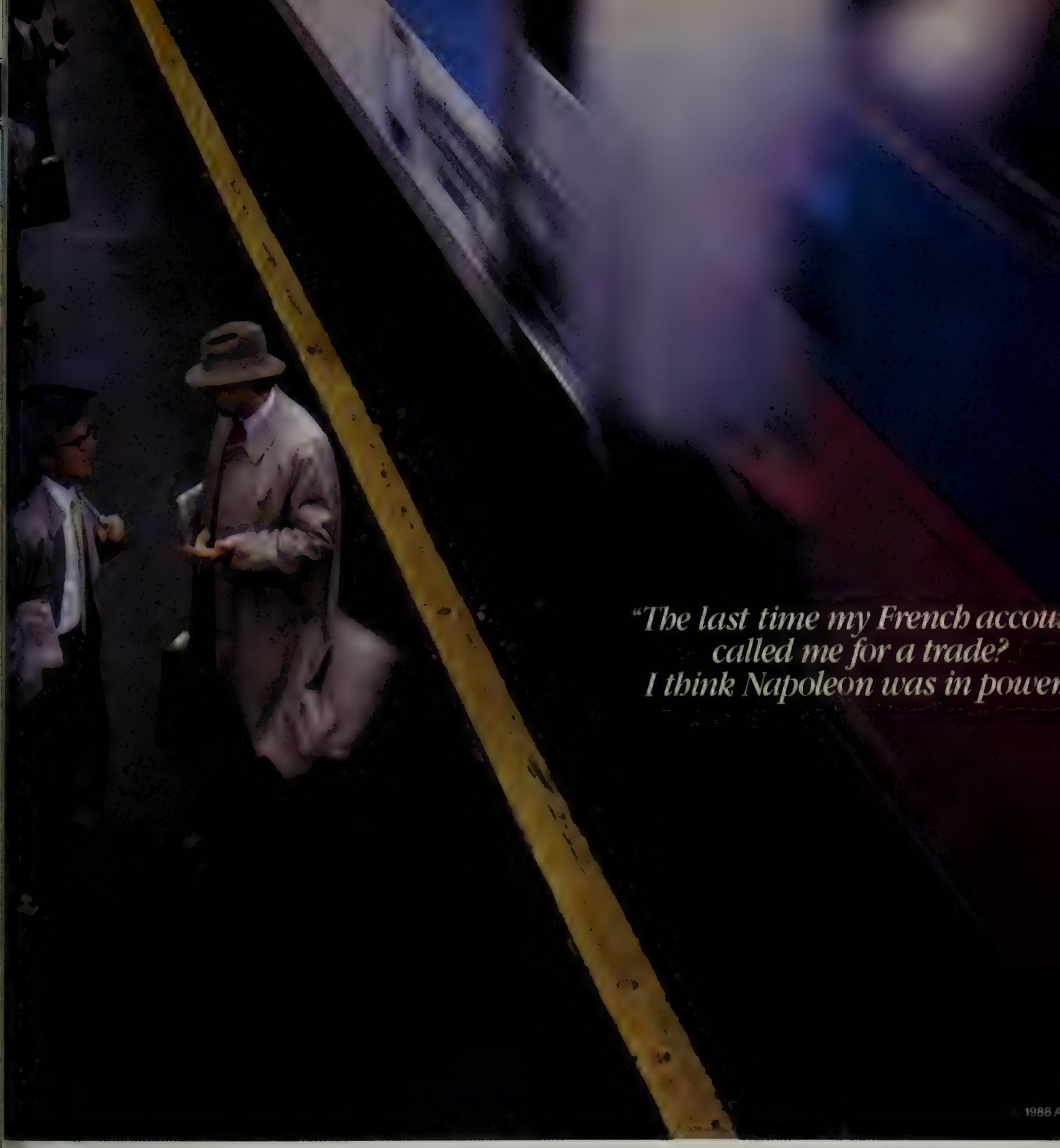
Company	Return on equity rank	5-year average	Latest 12 months	Company	Return on equity rank	5-year average	Latest 12 months	Company	Return on equity rank	5-year average	Latest 12 mont
Gulf & Western	745	9.6%	17.6%	Munford	807	7.4%	def	Alcoa	869	5.3%	20.
USF&G	746	9.6	14.5	Texas Eastern	808	7.3	12.3%	Warner Commun	870	5.3	27.
Georgia-Pacific	747	9.6	17.5	Centerre Bancorp	809	7.3	7.1	Penn Central	871	5.2	4.
Equitable of Iowa	748	9.5	7.2	Service Merchandise	810	7.3	17.4	Cigna	872	5.1	9.
Tektronix	749	9.5	def	UAL	811	7.3	74.0	Crane	873	5.1	17.
Valley National	750	9.4	2.8	Foster Wheeler	812	7.3	1.6	Scientific-Atlanta	874	5.1	13.
Whittaker	751	9.4	12.6	Santa Fe Southern	813	7.3	def	Eagle-Picher Inds	875	5.0	20.
Phillips Petroleum	752	9.4	32.5	United Telecom	814	7.2	10.2	American Petrofina	876	4.9	15.
Cooper Industries	753	9.3	12.8	Foodarama Supermkts	815	7.2	15.6	Zenith Electronics	877	4.9	de
Interco	754	9.3	11.5	First Wisconsin	816	7.2	16.8	Washington National	878	4.8	de
Integrated Resources	755	9.3	6.8	DWG	817	7.1	28.9	Atlantic Financial	879	4.7[b]	6.
ITT	756	9.2	13.8	IC Industries	818	7.1	17.3	Ross Stores	880	4.7	17.
Perkin-Elmer	757	9.2	10.6	Polaroid	819	7.0	2.4	Talley Industries	881	4.7	1.
Wang Laboratories	758	9.2	5.3	Intel	820	7.0	31.8	Hadson	882	4.6	5.
Oneok	759	9.2	6.7	Emery Air Freight	821	7.0	def	Schlumberger	883	4.6	17.
Norfolk Southern	760	9.2	13.0	Mitchell Energy	822	7.0	0.3	Olin	884	4.6	13.
Xerox	761	9.1	11.3	Boise Cascade	823	6.9	18.3	Amoskeag	885	4.6	de
American Tel & Tel	762	9.1[b]	15.0	Louisiana-Pacific	824	6.9	13.0	Ingersoll-Rand	886	4.5	12.
Chesapeake	763	9.1	21.4	Medco Containment	825	6.8[a]	9.1	PS Group	887	4.5	21.
Harris Corp	764	9.0	7.0	CNW	826	6.8	12.6	Alcan Aluminium	888	4.4	21.
General Signal	765	9.0	2.8	Fireman's Fund	827	6.8	15.6	Gordon Jewelry	889	4.3	de
KN Energy	766	9.0	15.9	Adolph Coors	828	6.7	4.7	Handy & Harman	890	4.3	6.
United Banks of Colo	767	8.8	4.3	Ashland Oil	829	6.7	19.2	M/A-Com	891	4.3	7.
Gibraltar Financial	768	8.8	def	Union Pacific	830	6.6	14.4	Kennametal	892	4.3	14.
RLC	769	8.8	13.9	International Paper	831	6.5	16.3	Citicorp	893	4.1	de
Sun Company	770	8.8	0.2	Morrison-Knudsen	832	6.5	def	Statesman Group	894	4.0	0.
Unisys	771	8.7	15.8	CSX	833	6.5	2.9	Champion Spark Plug	895	4.0	4.
Monsanto	772	8.6	15.6	Northeast Savings FA	834	6.4[b]	def	Texas Instruments	896	4.0	20.
Michigan National	773	8.4	17.2	Cummins Engine	835	6.4	def	Sonat	897	3.9	8.
Alberto-Culver	774	8.4	20.8	Carson Pirie Scott	836	6.4	2.7	Lafarge	898	3.9	16.
Avnet	775	8.4	7.6	Cabot	837	6.4	10.6	Eastern Gas & Fuel	899	3.9	10.
AmeriTrust	776	8.3	12.0	Champion Intl	838	6.4	14.3	UGI	900	3.8	14.
Perry Drug Stores	777	8.3	def	Irving Bank	839	6.4	8.1	Alexander & Alex	901	3.5	15.
Lone Star Industries	778	8.1	4.7	First Interstate Bncp	840	6.4	def	Di Giorgio	902	3.4	8.
Weyerhaeuser	779	8.1	15.0	Allied-Signal	841	6.3	14.1	Black & Decker	903	3.4	14.
Columbia Pictures	780	8.1	def	Beneficial Corp	842	6.3	15.9	Northern Trust	904	3.2	6.
Seaway Food Town	781	8.0	41.4	Premier Bancorp	843	6.3	def	Tenneco	905	3.2	0.
Bell Industries	782	8.0	10.8	Chemical Banking	844	6.3	44.5	Commercial Credit	906	3.2	14.
Advanced Micro	783	8.0	6.3	Intermark	845	6.3	14.7	Ramada	907	3.2	0.
Springs Industries	784	8.0	9.0	Volt Info Sciences	846	6.3	def	Mfrs Hanover	908	2.9	27.
Commercial Metals	785	8.0	16.6	Occidental Petroleum	847	6.1	5.7	Genesco	909	2.8	12.
USLife	786	8.0	7.9	Newmont Mining	848	6.1	NE	Lukens	910	2.8	20.
Noland	787	8.0	7.3	Louisiana Land	849	6.0	def	Allied Products	911	2.8	de
SPS Technologies	788	7.9	4.3	Preston	850	5.9	0.0	Combustion Eng	912	2.7	2.
Federal Natl Mortgage	789	7.9[b]	30.0	Child World	851	5.9[a]	4.6	Perini	913	2.5	12.
Beverly Enterpr	790	7.9	def	Carpenter Technology	852	5.9	9.5	Data General	914	2.5	de
Texas Industr	791	7.9	3.9	Chase Manhattan	853	5.9	26.8	Enserch	915	2.4	de
Tele-Commun	792	7.8	0.6	Honeywell	854	5.8	6.0	MCI Commun	916	2.4	19.
Varian Associates	793	7.8	6.4	Bearings	855	5.7	12.7	Trinity Industries	917	2.1	10.
Quaker State	794	7.8	4.0	Norwest	856	5.7	19.4	Earle M Jorgensen	918	2.0	6.
St Paul Cos	795	7.8	18.3	Dallas Corp	857	5.6	5.5	Butler Manufacturing	919	2.0	6.
Wickes Cos	796	7.7[a]	0.7	AO Smith	858	5.6	4.7	Horn & Hardart	920	2.0	de
NWA	797	7.7	6.6	American Carriers	859	5.6	def	LB Foster	921	1.9	26.
Guy F Atkinson	798	7.7	def	Imperial Corp of Am	860	5.6	15.0	Williams Cos	922	1.8	12.
Skyline	799	7.7	10.0	First Security	861	5.6	8.3	Amerada Hess	923	1.8	de
Pacific Resources	800	7.6	7.8	Nipsco Industries	862	5.5	7.8	Intl Minerals & Chem	924	1.8	10.
Pennzoil	801	7.6[b]	def	Manville	863	5.4	13.8	WR Grace	925	1.8	13.
Craig	802	7.5	19.3	Wyman-Gordon	864	5.4	3.0	Great Amer Mgmt	926	1.7	4.
Kansas City Southern	803	7.5	5.9	Columbia Gas System	865	5.4	6.0	MCorp	927	1.6	de
American Capital	804	7.5[b]	def	American Maize	866	5.4	6.2	Kerr-McGee	928	1.5	6.
Transco Energy	805	7.5	def	Alexander's	867	5.4	def	Allen Group	929	1.5	de
Pennwalt	806	7.4	10.7	Fieldcrest Cannon	868	5.3	def	Murphy Oil	930	1.5	de

NA: Not available. NE: Negative equity. def: Deficit. a: Three-year average. b: Four-year average.

WHO'S WHERE IN PROFITABILITY

Company	Return on equity rank	5-year average	Latest 12 months	Company	Return on equity rank	5-year average	Latest 12 months	Company	Return on equity rank	5-year average	Latest 12 months
First Chicago	931	1.3%	17.2%	Foxboro	993	def	def	Coast S&L Assn		NA	11.3%
Crown Central Pet	932	1.0	39.3	BankAmerica	994	def	14.6%	Coca-Cola Enterprises		NA	6.7
Thorn Apple Valley	933	1.0	12.1	Costco Wholesale	995	def[a]	12.6	Commercial Federal		NA	1.1
Reynolds Metals	934	0.9	25.8	United Merchants	996	def	def	Consolidated Rail		NA	8.0
Norton	935	0.8	16.0	Todd Shipyards	997	def	def	CrossLand Savings		NA	12.6
Halliburton	936	0.6	5.2	Lone Star Tech	998	def	def	Cyclops Industries		NA	NE
Bally Manufacturing	937	0.5	5.7	US Home	999	def	def	Diamond Shamrock		NA	11.2
Panhandle Eastern	938	0.3	def	Cyprus Minerals	1000	def[a]	13.0	Dime Savings Bank		NA	8.1
GATX	939	0.3	19.6	MA Hanna	1001	def	23.0	Edgcomb		NA	30.2
Nicor	940	0.2	18.2	Cameron Iron Works	1002	def	def	Empire of America		NA	def
Public Service NH	941	0.2	def	Datapoint	1003	def	def	FHP International		NA	52.3
Lorimar-Telepictures	942	def	def	Itel	1004	def[b]	6.0	Finevest Foods		NA	15.0
Stewart & Stevenson	943	def	20.3	Borman's	1005	def	def	Foodmaker		NA	16.0
Mellon Bank	944	def	def	Tesoro Petroleum	1006	def	def	Formica		NA	34.1
Cross & Trecker	945	def	12.6	Triangle Industries	1007	def[b]	def	Fruehauf		NA	NE
Dresser Industries	946	def	7.7	Bethlehem Steel	1008	def	26.1	Fruit of the Loom		NA	25.8
Caterpillar	947	def	16.6	Baker Hughes	1009	def	6.0	Gaylord Container		NA	93.6
CBI Industries	948	def	3.3	Businessland	1010	def	19.1	General Mills		NA	73.7
National-Standard	949	def	7.4	Dravo	1011	def	def	GM Hughes		NA	3.5
Timken	950	def	5.4	AMAX	1012	def	22.3	Genlyte Group		NA	NA
CRS Sirrine	951	def	14.3	NL Industries	1013	def	NE	Georgia Gulf		NA	112.3
Texaco	952	def	def	Armco	1014	def	6.8	Goldome		NA	def
General Instrument	953	def	15.0	PACE Membership	1015	def	5.7	Harley-Davidson		NA	37.0
Boo Line	954	def	6.7	Fairchild Industries	1016	def	11.7	Henley Group		NA	def
Deere	955	def	13.7	Inspiration Resources	1017	def	9.4	Henley Mfg		NA	0.0
Orion Pictures	956	def	6.7	American Hoist	1018	def	2.9	Hills Dept Stores		NA	NE
Natl Semiconductor	957	def	0.9	Continental Illinois	1019	def	def	Home Group		NA	9.3
Mack Trucks	958	def	1.0	Wilson Foods	1020	def	9.3	Home Shopping		NA	15.4
CMS Energy	959	def	20.2	Charter	1021	def[a]	98.3	IBP		NA	12.3
Valero Energy	960	def	def	United Financial	1022	def	NE	IMC Fertilizer Group		NA	NA
Comstock Group	961	def	def	Smith International	1023	def	23.3	InterTAN		NA	15.3
Maxicare Health	962	def	NE	America West Air	1024	def[b]	def	Leslie Fay Cos		NA	21.2
Phelps Dodge	963	def	31.8	Mattel	1025	def[b]	def	LVI Group		NA	def
BF Goodrich	964	def	17.7	Ideal Basic Inds	1026	def[b]	def	Magma Copper		NA	def
Jacobs Engineering	965	def	20.5	Grossman's	1027	def[b]	14.2	MAI Basic Four		NA	30.3
Orion Capital	966	def	16.8	Wheeling-Pittsburgh	1028	def[a]	NE	Maxus Energy		NA	def
Asarco	967	def	19.0	ADVO-System	1029	def[b]	def	MGM/UA Commun		NA	def
Ampco-Pittsburgh	968	def	def	Western Union	1030	def[b]	def	Michigan Consol		NA	18.5
TIE/Communications	969	def	def	Savin	1031	def[a]	NE	MMR Holding		NA	29.9
Fischbach	970	def	def	Allegheny Intl	1032	def	NE	Morgan Stanley		NA	30.3
Inland Steel Inds	971	def	17.7	Texas Air	1033	def[a]	def	Navistar Intl		NA	30.1
McDermott Intl	972	def	def	LTV	1034	def[b]	NE	Neiman Marcus		NA	NA
Westmoreland Coal	973	def	def	Allis-Chalmers	1035	def[a]	NE	Penn Traffic		NA	43.2
Ncn	974	def	46.9	Storage Technology	1036	def[a]	8.8	People's Bank		NA	0.0
Harnischfeger Inds	975	def	8.0	Pan Am	1037	def	NE	Premark Intl		NA	17.1
First Pennsylvania	976	def	15.5	Tiger International	1038	def[a]	293.7	Rexene		NA	0.0
Clark Equipment	977	def	5.8	AH Robins	1039	def[a]	NE	Richfood Holding		NA	0.0
Texas American Bcsh	978	def	def	Alleghany		NA	9.1	Charles Schwab		NA	0.0
Cincinnati Milacron	979	def	def	Allegheny Ludlum		NA	45.5	EW Scripps		NA	5.7
JH Robertson	980	def	def	AM International		NA	def	SSMC		NA	0.8
National Intergroup	981	def	def	AmeriFirst Bank		NA	def	Standard Fedl Bank		NA	16.3
Copperweld	982	def	19.5	Anchor Savings Bank		NA	def	Sterling Chemicals		NA	276.0
USX	983	def	10.6	Aristech Chemical		NA	41.6	Talman Home Federal		NA	8.5
Sprague Technologies	984	def	4.2	Atari		NA	18.6	TCF Financial		NA	def
Florida Federal S&L	985	def[b]	def	Avondale Industries		NA	0.7	Tosco		NA	59.5
Meritor Financial	986	def[b]	def	Balfour Maclaine		NA	def	Turner Broadcasting		NA	NE
Fluor	987	def	31.9	Bear Stearns Cos		NA	0.0	UNUM Corp		NA	8.7
Kerr Glass Mfg	988	def	def	Benj Franklin S&L		NA	8.7	Varity Corp		NA	22.8
Arrow Electronics	989	def	def	Budget Rent a Car		NA	18.5	Viacom		NA	0.0
Pittston	990	def	def	Cannon Group		NA	NE	Vons Cos		NA	def
Control Data	991	def	2.4	Carter Hawley Hale		NA	NA	VWR Corp		NA	12.4
UNC	992	def	11.2	Castle & Cooke		NA	19.7	York International		NA	11.4

NA: Not available. NE: Negative equity. def Deficit. a: Three-year average. b: Four-year average.



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WHO'S WHERE IN THE INDUSTRY GROUPS

The resurgence of heavy industry will shuffle the order of industry leaders and laggards. This is only the beginning.

By Douglas W. Kortrey

DESPITE PREDICTIONS TO THE CONTRARY, the prosperity of the Eighties continued into 1988. For the 1,116 companies surveyed in this report, both five-year average and latest 12-month return on equity improved. Median long-term profitability jumped from 12.8% to 13.9%, while latest 12-month return on equity went from 13.6% to 14.1%.

This year the same nine industries are at the top, though their order is slightly juggled. But this is where similarity with previous lists comes to an end. Tenth-place consumer products, with a five-year average return on equity of 15.8%, displaced electric utilities, which dropped to 15th place with a five-year profitability of 13.9%. The automotive group, which continues to pull away from the depths of the 1981-82 recession, made a bold move up 11 notches from last year as it moved into 12th position with a five-year average return on equity of 14.3%. It may become tougher for this group to climb much higher. Latest 12-month results are almost flat, possibly a sign that many of these companies may be approaching a cyclical peak.

Problems in the brokerage subindustry are likely to pull down the future ranking of the financial services industry. Latest 12-month returns for financial services are only 9.8%, versus 15.9% for five-year results. Retailing and banks and thrifts also appear on the verge of slipping a few notches. In total, 12 of the 31 major industry groups have 12-month return on equity below their five-year averages.

Who is on the rebound? Paper has a five-year profitability of 11.8% but a 12-month return on equity of 21.8%. All of the ten lowest-ranked industries have outperformed their historical marks in the past 12 months. Heavy equipment, for example, has gone from 5% to 12.8%. ■

Yardsticks of management performance	Profitability					Growth					
	Return on equity					Sales			Earnings per share		
Industry (number of companies)	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months
Beverages and tobacco (17)	1	19.6%	19.7%	44.9%	8.0%	10	11.3%	10.3%	6	12.3%	20.2%
Alcoholic beverages (4)		15.5	16.1	43.3	9.4		10.3	8.7		8.1	19.2
Soft drinks (4)		25.2	24.1	103.2	5.4		6.6	11.5		16.1	13.8
Tobacco (9)		18.7	22.3	67.4	8.1		11.6	15.7		11.3	28.3
Communications media (33)	2	19.4	17.6	48.2	6.4	9	11.6	14.2	7	12.1	18.4
Publishing (22)		21.7	18.3	47.0	7.6		10.6	8.7		13.5	16.9
Broadcasting/cable (7)		15.1	0.6	282.4	4.3		32.3	17.9		–8.8	127.0
Media services (4)		15.2	18.2	13.5	4.2		14.6	16.6		NM	18.7
Industrial and office services (46)	3	18.6	14.8	31.5	4.2	4	14.4	13.8	3	16.3	19.3
Industrial services (14)		21.3	16.6	43.7	4.7		14.4	19.7		20.5	21.0
Office products, services (32)		18.3	14.5	26.9	4.2		14.4	12.0		16.2	16.1

def Deficit NM Not meaningful For further explanation, see page 77

Yardsticks of management performance	Profitability					Growth					
	Return on equity					Sales			Earnings per share		
Industry (number of companies)	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months
Food processors (41)	**4**	**18.2%**	**17.8%**	**57.4%**	**4.2%**	**20**	**8.4%**	**8.0%**	**8**	**11.6%**	**19.1%**
Food commodities (4)		15.1	11.4	26.4	3.5		10.3	14.7		0.6	10.8
Meatpacking (10)		17.1	14.2	82.4	1.3		8.5	8.2		25.3	23.2
Branded foods (27)		19.3	20.9	53.4	5.1		8.3	7.6		11.3	19.1
Electrical equipment (12)	**5**	**17.7**	**18.3**	**18.3**	**7.0**	**15**	**9.6**	**10.5**	**9**	**11.0**	**15.5**
Health (48)	**6**	**16.8**	**16.2**	**33.8**	**5.8**	**6**	**13.3**	**11.8**	**5**	**12.9**	**16.3**
Drugs (23)		17.8	19.8	14.6	8.3		9.7	10.1		12.9	15.6
Medical supplies (14)		17.6	17.4	29.9	9.2		12.9	13.9		15.8	22.9
Health care services (11)		13.3	5.8	139.5	1.3		21.2	15.1		–40.3	–78.3
Food distributors (56)	**7**	**16.1**	**15.7**	**75.4**	**1.4**	**16**	**9.5**	**8.7**	**10**	**8.8**	**20.6**
Wholesale and supply (14)		15.5	15.0	89.5	1.0		13.4	12.6		8.2	22.4
Major supermarkets (5)		18.3	16.6	39.0	1.2		8.2	6.7		6.0	28.3
Regional supermarkets (21)		15.8	17.7	84.0	1.7		8.5	8.8		16.9	21.4
Convenience stores (4)		14.6	7.6	227.6	0.5		19.5	10.1		NM	12.1
Restaurant chains (12)		15.3	14.8	48.1	3.4		10.0	6.0		8.0	16.7
Financial services (29)	**8**	**15.9**	**9.8**	**132.6**	**3.4**	**3**	**15.1**	**11.6**	**21**	**0.3**	**–8.8**
Financial companies (16)		15.3	16.3	241.0	4.1		10.6	11.6		–8.2	20.6
Brokerage houses (9)		17.2	5.8	54.4	2.8		22.2	–2.6		–2.4	–34.7
Commodity traders (4)		12.4	11.9	27.7	1.8		9.6	25.4		5.6	–8.2
Consumer products (53)	**9**	**15.8**	**16.1**	**36.7**	**4.9**	**8**	**12.0**	**11.6**	**13**	**7.8**	**19.8**
Appliances (17)		16.3	14.8	41.2	3.3		12.0	11.3		4.1	19.8
Home furnishings (15)		14.0	15.3	43.0	4.9		18.4	11.5		8.0	9.2
Household products (3)		10.0	2.8	86.7	0.9		5.6	13.3		–9.2	–84.0
Personal products (18)		16.3	22.8	20.3	8.2		10.3	12.7		12.5	30.3
Retailing (81)	**10**	**15.8**	**13.8**	**45.7**	**2.6**	**5**	**13.3**	**12.6**	**14**	**7.2**	**7.5**
Apparel (10)		21.0	14.4	30.8	4.0		21.9	12.1		17.1	–22.1
Catalog showrooms (3)		7.3	15.9	235.8	1.8		17.3	9.6		NM	–19.8
Department stores (12)		12.9	12.8	64.6	3.0		6.6	6.5		7.8	14.5
Discount and variety (13)		16.2	11.7	45.7	2.0		15.2	11.9		10.6	14.0
Drugs (8)		14.6	15.0	66.5	2.8		14.5	9.9		–1.9	11.6
Jewelry (2)		13.3	25.8	29.5	5.7		3.7	–1.5		NM	NM
Shoes (4)		10.0	11.7	46.9	2.6		2.6	–1.2		NM	–21.6
Miscellaneous (29)		14.8	14.2	44.5	2.4		21.1	21.4		9.4	14.0
Aerospace and defense (49)	**11**	**14.5**	**14.1**	**32.8**	**3.9**	**22**	**8.3**	**6.0**	**11**	**8.5**	**20.3**
Automotive (46)	**12**	**14.3**	**14.4**	**44.3**	**3.7**	**21**	**8.4**	**11.7**	**12**	**8.1**	**20.1**
Automobiles and trucks (10)		23.5	13.7	35.8	3.5		11.9	14.5		14.2	–25.3
Automotive parts (28)		12.5	13.9	48.4	3.7		8.0	11.4		1.9	21.7
Recreational vehicles (5)		16.5	10.0	1.1	3.5		14.7	10.4		15.0	22.3
Tire and rubber (3)		15.9	25.1	27.6	4.9		7.7	15.1		12.5	19.2
Apparel, shoes and textiles (23)	**13**	**14.0**	**14.3**	**44.1**	**4.3**	**11**	**11.2**	**10.0**	**23**	**–2.1**	**8.2**
Apparel (11)		14.3	18.3	40.8	4.7		5.2	10.0		7.5	13.1
Shoes (4)		15.6	19.9	25.9	5.9		8.3	21.9		–12.0	–22.9
Textiles (8)		9.2	11.7	87.3	3.5		15.7	9.4		NM	–2.7
Insurance (74)	**14**	**14.0**	**13.3**	**26.0**	**5.7**	**2**	**15.4**	**7.9**	**4**	**14.1**	**–6.7**
Brokers (2)		19.5	26.9	27.7	9.3		14.2	4.8		NM	1.9
Diversified (27)		14.6	13.9	23.1	6.5		15.2	7.0		15.3	–0.7
Life and health (24)		14.1	7.5	27.6	4.1		20.8	13.7		17.4	–29.9
Property and casualty (21)		13.4	16.2	27.3	7.4		14.6	7.8		9.0	3.3
Electric utilities (84)	**15**	**13.9**	**13.4**	**100.2**	**11.1**	**26**	**4.1**	**3.4**	**17**	**2.6**	**0.3**
Northeast (24)		13.1	12.8	103.8	10.1		2.6	3.5		1.1	1.7
North central (29)		14.7	13.6	100.0	11.6		2.7	3.2		0.8	0.0
Southeast (10)		14.3	13.9	88.7	11.1		7.1	2.1		6.2	2.4
South central (8)		15.4	12.8	102.0	13.3		3.8	2.3		1.4	–7.8
Western (13)		13.1	13.9	96.2	10.4		5.3	8.2		0.9	4.9

def: Deficit. NM: Not meaningful. For further explanation, see page 77.

WHO'S WHERE IN INDUSTRY

Yardsticks of management performance	Profitability					Growth					
	Return on equity					Sales			Earnings per share		
Industry (number of companies)	rank	5-year average	latest 12 months	debt as % of equity	net profit margin	rank	5-year average	latest 12 months	rank	5-year average	latest 12 months
Banks and thrifts (122)	**16**	**13.9%**	**12.5%**	**41.3%**	**6.8%**	**7**	**12.1%**	**12.2%**	**20**	**1.2%**	**15.0%**
Multinational (11)		5.9	17.2	78.3	5.9		1.6	13.8		NM	NM
Northeast (8)		15.6	15.1	46.2	8.4		12.7	19.8		7.7	17.4
Mid-Atlantic (15)		15.1	15.5	33.9	8.7		12.9	17.2		8.8	14.9
North central (22)		12.5	14.3	27.3	8.9		8.9	11.8		3.7	34.3
Southeast (13)		16.3	16.4	27.9	9.9		14.0	12.6		12.5	9.7
South central (3)		1.6	def	23.7	def		12.2	–8.5		NM	NM
Western (9)		9.9	12.6	50.7	6.0		6.7	7.9		–20.5	88.6
Thrift institutions (41)		14.4	6.6	83.0	2.8		16.1	8.0		–54.8	–59.1
Telecommunications (25)	**17**	**13.7**	**14.0**	**63.0**	**7.8**	**24**	**6.3**	**5.8**	**18**	**1.6**	**8.4**
Carriers (19)		13.9	14.7	68.2	11.5		6.2	6.3		4.1	8.4
Manufacturing (6)		5.2	9.9	10.4	5.2		10.3	1.8		NM	6.8
Packaging (23)	**18**	**13.2**	**16.3**	**58.7**	**5.3**	**13**	**10.8**	**13.4**	**2**	**17.0**	**28.4**
Conglomerates (17)	**19**	**12.7**	**18.0**	**42.0**	**5.2**	**23**	**6.9**	**5.0**	**15**	**4.9**	**34.2**
Natural gas (58)	**20**	**12.7**	**12.3**	**91.6**	**6.7**	**30**	**–0.7**	**1.8**	**24**	**–5.1**	**6.0**
Producers and pipeliners (12)		6.6	5.4	127.5	1.6		–2.9	–6.1		NM	–44.4
Distributors (36)		13.3	13.6	85.7	7.2		0.8	1.9		0.7	9.1
Integrated (10)		11.8	8.6	83.1	4.6		–5.9	3.2		–11.8	–2.6
Paper (26)	**21**	**11.8**	**21.8**	**53.9**	**7.9**	**18**	**8.8**	**14.5**	**1**	**18.0**	**50.8**
Chemicals (53)	**22**	**11.7**	**16.0**	**36.5**	**6.6**	**28**	**3.7**	**16.1**	**16**	**3.9**	**37.8**
Diversified (17)		11.6	16.2	31.0	6.6		3.5	15.5		12.7	41.6
Specialized (36)		12.9	15.8	44.8	7.2		5.0	16.7		2.7	37.8
Computers and electronics (56)	**23**	**11.6**	**14.0**	**29.5**	**4.7**	**12**	**10.9**	**18.1**	**22**	**–1.2**	**28.8**
Computers (28)		15.9	13.8	33.2	4.5		19.3	20.9		8.0	6.0
Electronic equipment (19)		10.9	18.0	16.2	5.0		6.9	14.0		2.7	34.9
Semiconductors (9)		7.0	7.6	29.0	4.4		9.9	22.3		NM	134.0
Leisure and recreation (30)	**24**	**10.3**	**13.7**	**124.9**	**4.4**	**14**	**10.5**	**17.1**	**19**	**1.3**	**8.6**
Entertainment (14)		9.6	6.9	145.3	3.1		17.5	19.7		–16.2	–15.6
Hotels and gaming (8)		16.7	23.7	194.4	7.8		6.8	10.8		13.8	12.7
Recreation (3)		10.3	14.0	39.7	4.5		10.5	20.6		1.3	36.2
Photography (3)		9.8	22.1	70.9	8.3		4.1	20.6		14.3	98.2
Toys and electronics (2)		def	def	138.3	def		32.6	–5.2		NM	NM
Construction (68)	**25**	**9.9**	**12.8**	**49.4**	**3.4**	**19**	**8.4**	**6.9**	**25**	**–5.4**	**14.0**
Residential builders (8)		15.5	9.5	161.5	3.1		13.5	3.6		11.9	–22.8
Commercial builders (21)		2.5	5.2	35.2	0.9		6.3	4.6		NM	39.0
Cement and gypsum (6)		8.0	9.0	55.1	5.5		11.4	–6.8		NM	–40.0
Lumber (8)		8.8	17.2	53.9	7.2		7.7	11.3		40.7	24.4
Other materials (25)		11.2	13.8	46.8	4.1		8.9	7.6		8.3	15.4
Air transport (15)	**26**	**7.7**	**8.5**	**76.0**	**3.2**	**1**	**15.7**	**20.0**	**26**	**NM**	**–14.3**
Freight (5)		7.0	5.6	131.0	1.0		14.2	20.2		NM	–38.0
Airlines (10)		9.6	9.2	71.4	3.6		17.4	17.7		NM	4.1
Surface transportation (24)	**27**	**7.5**	**10.2**	**73.1**	**3.4**	**17**	**9.0**	**7.4**	**26**	**NM**	**17.2**
Railroads (11)		6.7	8.2	82.2	5.3		5.5	5.0		NM	21.9
Trucking and leasing (9)		14.1	10.2	73.1	3.1		14.3	12.6		0.1	–7.1
Other surface (4)		13.3	11.2	53.2	5.6		9.6	11.7		–5.7	18.5
Oil (48)	**28**	**6.6**	**10.9**	**64.8**	**2.8**	**31**	**–6.1**	**10.5**	**26**	**NM**	**25.3**
International oils (7)		10.9	13.1	38.3	6.6		–5.0	9.0		0.0	20.1
Other oil and gas (33)		6.8	10.6	75.1	2.2		–8.1	8.6		NM	23.2
Oilfield services (8)		def	6.8	42.4	2.5		–8.4	19.7		NM	–56.3
Heavy equipment (44)	**29**	**5.0**	**12.8**	**38.7**	**4.2**	**27**	**3.9**	**14.0**	**26**	**NM**	**19.9**
Agricultural (3)		0.6	13.7	99.5	3.5		–2.2	38.7		NM	P-D
Building and mining (3)		def	16.6	34.1	3.7		6.2	22.1		NM	500.0+
Industrial (38)		6.5	12.7	38.7	4.4		3.9	13.2		–15.3	16.4
Metals (36)	**30**	**def**	**14.2**	**39.9**	**4.9**	**25**	**4.7**	**26.4**	**26**	**NM**	**148.3**
Nonferrous metals (13)		def	19.0	38.1	8.4		5.8	30.7		NM	172.8
Steel (23)		def	10.6	42.5	3.3		4.5	22.3		NM	104.8
Coal (7)	**31**	**def**	**13.0**	**68.0**	**7.4**	**29**	**3.2**	**14.5**	**26**	**NM**	**16.8**
All-industry medians		**13.9**	**14.1**	**45.7**	**4.9**		**9.5**	**11.6**		**3.9**	**18.4**

P-D Profit to deficit def Deficit NM Not meaningful For further explanation, see page 77

WHO'S WHERE IN THIS ISSUE

The following summary, organized alphabetically, shows how each of the 1,116 companies in this survey stacks up against every other survey company regardless of industry. Each corporation is ranked three ways: five-year average return on equity, five-year earnings growth and five-year stock market performance. The last column lists each company's industry survey page. Within these industry reports each firm is ranked against its peers. The entire universe of companies is ordered by rank in the profitability report (page 240) and growth report (page 198). The alphabetically ordered stock market report begins on page 217.

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Abbott Laboratories	68	219	258	150
Advanced Micro	783	NM	994	114
ADVO-System	1029	NM	**	111
Aetna Life & Cas	717	93	601	161
Affiliated Pubs	25	31	8	111
HF Ahmanson	399	102	499	94
Air Prods & Chems	700	724	354	103
Airborne Freight	577	538	923	84
Alaska Air Group	310	668	573	84
Albany International	129	50	**	184
Alberto-Culver	774	263	9	126, 188
Albertson's	194	317	141	139
Alcan Aluminium	888	NM	722	172
Alco Health Services	591	282	321	150
Alco Standard	515	582	592	158
Alexander & Alexander	901	NM	717	161
Alexander & Baldwin	257	144	44	192
Alexander's	867	718	39	188
Alleghany	**	NM	**	161
Allegheny Intl	1032	NM	1007	126
Allegheny Ludlum	**	**	**	172
Allegheny Power	429	560	568	132
Allen Group	929	NM	887	90
Allied Products	911	NM	385	156
Allied-Signal	841	NM	835	82, 90
Allis-Chalmers	1035	**	1012	156
Alltel	428	478	205	194
Alcoa	869	NM	702	172
AM International	**	757	648	158
AMAX	1012	NM	807	108, 172
Amdahl	632	40	257	114
Amerada Hess	923	NM	786	178
America West Airlines	1024	NM	932	84
American Bankers	743	NM	832	161
American Brands	243	536	352	100, 118
American Building	723	700	736	158
American Capital	804	NM	816	94
American Carriers	859	NM	1011	192

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
American Continental	48	385	683	94, 136
American Cyanamid	639	335	317	103, 150
American Electric	601	545	479	132
American Express	462	24	426	136
American Family	163	84	92	161
American General	529	414	590	161
American Greetings	431	664	878	111
American Hoist	1018	NM	818	126, 188
American Home Prod	44	413	462	150
American Intl Group	315	189	262	161
American Maize	866	NM	829	144
American Medical	638	NM	903	150
American Natl Ins	510	418	496	161
American Petrofina	876	NM	603	178
American President	552	667	394	192
American Stores	131	503	583	139, 188
American Tel & Tel	762	671	474	194
American Water Works	640	333	166	132
AmeriFirst Bank	**	NM	**	94
Ameritech	419	465	213	194
AmeriTrust	776	NM	382	94
Ames Dept Stores	278	444	653	188
Ametek	216	497	791	156
Amoco	528	686	582	178
Amoskeag	885	743	653	126
AMP	205	422	744	114
Ampco-Pittsburgh	968	NM	893	156, 172
AMR	410	672	610	84
AmSouth Bancorp	423	411	413	94
Anchor Glass	4	2	**	182
Anchor Savings Bank	**	**	**	94
Anheuser-Busch Cos	181	276	86	100
Aon	237	262	595	161
Apollo Computer	96	NM	983	114
Apple Computer	138	149	73	114
Archer-Daniels	705	342	291	144
Arden Group	395	81	12	139
Argonaut Group	54	211	**	161

Profitability: 5-year return on equity. **Growth:** 5-year annual earnings-per-share growth. **Stock Market:** 5-year price change. **NM:** Not meaningful. **Not ranked.

WHERE TO FIND THE COMPANY

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Aristech Chemical	**	**	**	103
Arkla	620	669	856	174
Armco	1014	NM	960	172
Armstrong World Inds	411	63	158	120
Arrow Electronics	989	NM	992	114
Arvin Industries	433	121	497	90
Asarco	967	NM	847	172
Ashland Oil	829	NM	187	178
Atari	**	**	**	114, 188
Guy F Atkinson	798	744	793	120
Atlanta Gas Light	648	353	102	174
Atlantic Energy	518	419	542	132
Atlantic Financial	879	NM	915	94
Atlantic Richfield	701	NM	336	178
Automatic Data	256	274	239	158
Avery International	373	553	478	158, 182
Avnet	775	733	966	114
Avon Products	588	NM	876	126
Avondale Industries	**	**	**	82, 192
Baker Hughes	1009	NM	**	178
Balfour Maclaine	**	NM	**	136
Ball Corp	299	350	286	182
Bally Manufacturing	937	NM	754	168
Baltimore G&E	374	395	253	132, 174
Banc One	328	316	314	94
Bancorp Hawaii	327	412	143	94
Bandag	60	202	185	90
Bank of Boston	610	745	356	94
Bank of New England	430	583	327	94
Bank of New York	439	606	415	94
BankAmerica	994	NM	846	94
Bankers Trust NY	521	755	395	94
CR Bard	191	228	181	150
Barnes Group	714	458	490	90
Barnett Banks	247	294	298	94
Bassett Furniture Ind	637	661	862	126
Bausch & Lomb	291	247	384	150
Baxter International	635	552	894	150
BayBanks	407	322	170	94
Bear Stearns Cos	**	NM	827	136
Bearings	855	715	578	156
Becton Dickinson	593	178	103	150
Bell Atlantic	476	462	212	194
Bell Industries	782	735	955	114
BellSouth	457	488	222	194
Bemis	536	109	37	182
Beneficial Corp	842	NM	596	136
Benj Franklin S&L	**	NM	**	94
Bergen Brunswig	472	608	650	150
WR Berkley	733	NM	71	161
Berkshire Hathaway	300	83	51	118, 161
Best Buy Co	9	23	2	188
Bethlehem Steel	1008	NM	892	172
Beverly Enterprises	790	NM	985	150
Big Bear	98	351	63	139
Bindley Western Inds	440	647	872	150
Black & Decker	903	NM	875	126
H&R Block	126	334	183	136, 158
Blount	625	736	785	120
BMA Corp	682	NM	452	161
Boatmen's Bancshares	422	574	685	94
Boeing	404	391	225	82
Boise Cascade	823	20	487	120, 184
Borden	413	348	85	144
Borman's	1005	NM	530	139

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Boston Edison	415	44	701	132
Bowater	478	642	632	184
Briggs & Stratton	653	660	817	126
Bristol-Myers	112	326	263	126, 150
Brooklyn Union Gas	501	635	519	174
Brown-Forman	233	551	184	100
Brown Group	596	659	775	188
Browning-Ferris Inds	139	242	165	158
Bruno's	94	238	108	139
Brunswick	152	486	163	168
Budget Rent a Car	**	NM	**	192
Burlington Coat	132	253	881	188
Burlington Northern	731	NM	561	174, 192
Businessland	1010	NM	679	188
Butler Manufacturing	919	NM	629	120
Cabot	837	NM	544	103, 178
Caesars World	722	NM	240	168
CalFed	538	15	784	94
CalMat	695	3	118	120
Cameron Iron Works	1002	NM	919	178
Campbell Soup	370	394	260	144
Cannon Group	**	**	997	168
Capital Cities/ABC	261	286	151	111
Capital Holding	338	171	420	161
Cardinal Distribution	282	278	553	150
Carlisle Cos	532	666	663	114, 120
Carnival Cruise Lines	12	110	**	168
Carolina Freight	304	587	871	192
Carolina Power & Lt	502	527	423	132
Carpenter Technology	852	740	844	172
Carson Pirie Scott	836	NM	**	188
Carter Hawley Hale	**	614	**	188
Carter-Wallace	482	194	45	126, 150
Castle & Cooke	**	NM	277	144
Caterpillar	947	NM	623	156
CBI Industries	948	NM	836	103, 120
CBS	92	130	126	111
CDI Corp	124	108	30	158
Centel	393	546	284	194
Centerior Energy	436	617	**	132
Centerre Bancorp	809	681	207	94
Centex	560	404	689	120
Central & So West	358	484	468	132
Central Hudson G&E	650	NM	824	132
Central Ill Pub Svc	579	629	585	132
Central Maine Power	721	709	636	132
Central Steel & Wire	740	517	338	172
CenTrust Savings Bank	3	758	695	94
Champion Intl	838	NM	758	120, 184
Champion Spark Plug	895	NM	652	90
Charming Shoppes	59	115	195	188
Charter	1021	NM	978	178
Chase Manhattan	853	NM	655	94
Chemical Banking	844	NM	733	94
Chesapeake	763	170	538	182, 184
Chevron	691	613	631	178
Chicago Pacific	235	704	38	126
Child World	851	392	643	188
Chrysler	10	19	250	90
Chubb	547	134	339	161
Church's Fried	720	739	912	139
Cigna	872	NM	739	136, 161
CILcorp	572	624	475	132, 174
Cincinnati Bell	473	339	33	194
Cincinnati Financial	343	229	366	161

Profitability: 5-year return on equity. **Growth:** 5-year annual earnings-per-share growth. **Stock Market:** 5-year price change. **NM:** Not meaningful. **Not ranked

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Cincinnati G&E	492	641	245	132, 174
Cincinnati Milacron	979	NM	914	156
Circle K	122	200	506	139
Circuit City Stores	47	49	18	188
Circus Circus	90	187	43	168
Citicorp	893	NM	598	94
Citizens & Southern	313	344	351	94
CityFed Financial	234	742	980	94
Clark Equipment	977	NM	877	90, 156
Clorox	174	311	159	126
CMS Energy	959	NM	371	132, 174
CNA Financial	417	105	107	161
CNW	826	NM	927	192
Coachmen Industries	455	NM	982	90
Coast S&L Assn	**	NM	765	94
Coastal Corp	443	535	188	174, 178
Coca-Cola	99	287	169	100
Coca-Cola Enterprises	**	243	**	100
Coleman	711	592	776	120, 168
Colgate-Palmolive	687	708	261	126
Collins Foods Intl	264	454	400	139
Columbia Gas System	865	NM	801	174
Columbia Pictures	780	409	**	168
Columbia S&L Assn	37	245	788	94
Combustion Eng	912	NM	850	156
Comdisco	75	143	436	158
Comerica	646	417	189	94
Commerce Bcshs	626	534	344	94
Commerce Clearing	33	304	433	111, 158
Commercial Credit	906	NM	**	136
Commercial Federal	**	**	477	94
Commercial Metals	785	523	571	136, 172
Commonwealth Ed	398	549	664	132
Commonwealth Energy	324	576	411	132, 174
Compaq Computer	70	5	32	114
Computer Associates	225	55	29	158
Computer Sciences	495	293	172	82, 158
Comstock Group	961	NM	993	120
ConAgra	171	207	124	144
Consolidated Edison	484	566	333	132
Consol Freightways	543	440	493	192
Consol Natural Gas	493	594	176	174
Consolidated Papers	207	192	89	184
Consolidated Rail	**	557	**	192
Consolidated Stores	16	33	889	188
Constar Intl	673	586	615	182
Contel	550	719	364	194
Continental Corp	697	492	617	161
Continental Illinois	1019	NM	798	94
Continental Info Sys	51	100	834	158
Control Data	991	NM	972	114
Cooper Cos	248	273	974	150
Cooper Industries	753	360	501	128, 156
Cooper Tire & Rubber	438	541	98	90
Adolph Coors	828	633	787	100
Copperweld	982	NM	925	172
CoreStates Financial	186	378	111	94
Corning Glass Works	694	213	318	114, 126, 150
Costco Wholesale	995	NM	634	188
CPC International	275	346	136	144
Craig	802	NM	192	139
Crane	873	424	**	120, 156
Cray Research	72	42	267	114
Crestar Financial	361	544	470	94
Cross & Trecker	945	NM	968	156

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
CrossLand Savings FSB	**	644	752	94
Crown Central Pet	932	NM	757	178
Crown Cork & Seal	566	161	69	182
CRS Sirrine	951	NM	410	158
CSX	833	NM	635	192
Culbro	506	92	312	100
Cummins Engine	835	NM	926	90
Curtice Burns Foods	319	571	539	144
CVN Cos	107	NM	179	188
Cyclops Industries	**	**	**	172
Cyprus Minerals	1000	NM	313	108, 172
Dairy Mart	335	NM	388	139
Dallas Corp	857	NM	886	120
Dana	590	251	618	90
Danaher	737	7	11	90, 114
Data General	914	NM	954	114
Datapoint	1003	NM	851	114
Dayton Hudson	378	530	633	188
Dean Foods	133	364	265	144
Deere	955	NM	665	156
Delchamps	437	645	393	139
Delmarva Power & Lt	447	563	599	132
Delta Air Lines	666	NM	660	84
Delta Woodside Inds	2	NM	**	86
Deluxe Corp	53	201	155	158
Dennison Mfg	584	589	742	158, 182
DeSoto	668	638	748	103
Detroit Edison	469	381	668	132
Dexter	425	451	547	103
Di Giorgio	902	NM	320	139
Diamond Shamrock R&M	**	NM	**	178
Dibrell Brothers	279	NM	194	100
Diebold	344	673	896	158
Digital Equipment	644	197	135	114
Dillard Dept Stores	164	154	87	188
Dime Savings Bank FSB	**	NM	**	94
Walt Disney	463	67	26	168
Diversified Energies	734	NM	441	174
Dixie Yarns	383	29	13	86
Dollar General	392	726	859	188
Dominion Bankshares	401	223	444	94
Dominion Resources	562	445	268	132
RR Donnelley & Sons	228	267	387	111
Dover	303	526	315	118, 120
Dow Chemical	669	166	138	103
Dow Jones	67	244	779	111
DPL	642	657	299	132, 174
Dravo	1011	NM	716	120
Dresser Industries	946	NM	630	156, 178
EI du Pont de Nemours	662	355	482	103, 178
Duke Power	481	507	330	132
Dun & Bradstreet	49	332	373	111
Duquesne Light	615	631	619	132
Durr-Fillauer	594	449	586	150
DWG	817	NM	110	86, 118
E-Systems	183	483	804	82
Eagle-Picher Inds	875	NM	922	90, 156
Eastern Gas & Fuel	899	NM	802	174, 192
Eastman Kodak	736	654	611	168
Eaton	339	371	559	90, 114
Echlin	421	448	566	90
Ecolab	102	68	425	158
Edgcomb	**	433	**	172
Edison Bros Stores	699	NM	823	188
AG Edwards	249	502	708	136

Profitability: 5-year return on equity. **Growth:** 5-year annual earnings-per-share growth. **Stock Market:** 5-year price change. **NM:** Not meaningful. **Not ranked.

WHERE TO FIND THE COMPANY

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
EG&G	85	500	843	114
El Paso Electric	375	711	698	132
Emerson Electric	211	480	602	126, 128
Emerson Radio	87	NM	720	126
Emery Air Freight	821	NM	998	84
Emhart	595	NM	556	118
Empire of America	**	NM	**	94
Engelhard	660	648	897	103, 172
Enron	471	NM	810	174
Enserch	915	NM	879	120, 174
Envirodyne Industries	28	6	1	182
Equifax	110	252	101	136
Equitable of Iowa	748	183	507	161, 188
Equitable Resources	274	652	432	174, 178
Esselte Business Sys	516	162	255	158
Ethyl	283	160	74	103, 161
Exxon	286	472	202	178
Fairchild Industries	1016	NM	880	82
Family Dollar Stores	83	204	797	188
Farmers Group	288	280	55	161
Fay's Drug	575	692	855	188
Federal Express	564	NM	800	84
Federal-Mogul	629	696	622	90
Federal Natl Mortgage	789	NM	246	136
Federal Paper Board	542	240	409	182, 184
Ferro	718	220	282	103
FHP International	**	54	**	150
Fieldcrest Cannon	868	NM	704	86, 126
Figgie Intl	465	297	60	82, 118
Fin Cp Santa Barbara	84	NM	971	94
Finevest Foods	**	**	**	139
Fireman's Fund	827	NM	792	161
First American	451	427	372	94
First Amer Financial	103	169	232	161
First Bank System	631	683	467	94
First Boston	219	609	148	136
First Capital Holding	18	13	5	161
First Chicago	931	NM	666	94
First Executive	97	590	536	161
First Federal Mich	175	306	480	94
First Fidelity Bncp	541	714	360	94
First Interstate Bncp	840	NM	718	94
First Maryland Bncp	651	426	48	94
First of America Bank	311	258	145	94
First Pennsylvania	976	NM	308	94
First Security	861	730	678	94
First Tennessee Natl	465	508	381	94
First Union	125	198	514	94
First Wachovia	226	345	708	94
First Wisconsin	816	NM	137	94
Fischbach	970	NM	975	120
Fleet/Norstar Finl	302	495	193	94
Fleetwood Enterprises	114	141	854	90, 120
Fleming Cos	496	640	707	139
Florida Federal S&L	985	NM	1000	94
Florida Natl Banks	380	473	454	94
Florida Progress	397	365	370	132
Flowers Industries	212	382	233	144
Fluor	987	NM	715	120
FMC	475	69	42	82, 103
Food Lion	69	104	10	139
Foodarama Supermkts	815	30	79	139
Foodmaker	**	**	**	139
Ford Motor	61	157	54	90
Foremost Corp of Amer	600	429	626	161

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Formica	**	**	**	120
LB Foster	921	NM	781	156
Foster Wheeler	812	749	826	120, 156
Foxboro	993	NM	870	156
FPL Group	526	510	486	132, 161
Freeport-McMoRan	347	443	575	103
Fruehauf	**	**	**	90
Fruit of the Loom	**	**	**	86
HB Fuller	400	203	637	103
Fuqua Industries	104	302	211	94, 126, 168
GAF	448	NM	14	103, 120
Gannett	159	359	390	111
Gap	89	95	7	188
GATX	939	NM	466	118, 192
Gaylord Container	**	**	**	182, 184
Geico	39	91	218	161
GenCorp	244	9	512	82
General Cinema	50	441	346	100, 168
General Development	617	512	867	120
General Dynamics	100	NM	837	82
General Electric	268	547	534	82, 126, 128
General Host	108	300	591	188
General Instrument	953	NM	906	114
General Mills	**	420	285	139, 144
General Motors	357	303	745	90
General Motors EDS	27	52	306	158
GM Hughes Electronics	**	400	495	82, 90
General Public Utils	685	127	20	132
General Re	530	250	464	161
General Signal	765	693	839	114, 128, 156
Genesco	909	NM	909	86, 188
Genlyte Group	**	168	**	128
Genuine Parts	260	450	345	90
Georgia Gulf	**	**	**	103
Georgia-Pacific	747	46	588	120, 184
Gerber Products	618	707	279	86, 144
Getty Petroleum	330	NM	83	178
Giant Food	140	361	41	139
Gibraltar Financial	768	NM	995	94
Gillette	144	695	105	126
PH Glatfelter	160	163	31	184
GlenFed	708	21	234	94
Golden West Finl	29	150	244	94
Goldome	**	**	**	94
BF Goodrich	964	NM	403	103
Goodyear	387	349	430	90
Gordon Jewelry	889	NM	885	188
WR Grace	925	NM	711	103
WW Grainger	408	315	374	128
Gt Am First Savings	616	45	524	94
Great American Mgmt	926	NM	753	103
Great A&P Tea	675	94	56	139
Great Lakes Chemical	203	248	453	103
Gt Northern Nekoosa	690	415	359	184
Gt Western Financial	450	126	383	94, 161
Greyhound	726	689	694	90, 126
Grossman's	1027	NM	931	188
Grow Group	729	741	774	120, 126
Grumman	442	NM	849	82
GTE	652	NM	521	194
Guilford Mills	426	521	762	86
Gulf & Western	745	NM	131	111, 136, 168
Gulf States Utils	589	663	899	132
Hadson	882	58	818	178
Halliburton	936	NM	913	120, 178

Profitability: 5-year return on equity **Growth:** 5-year annual earnings-per-share growth **Stock Market:** 5-year price change **NM:** Not meaningful
**Not ranked

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Handleman	135	123	167	168
Handy & Harman	890	NM	789	90, 172
MA Hanna	1001	NM	612	103
Hannaford Bros	223	261	66	139
Hanover Insurance	488	125	271	161
Harcourt Brace	298	53	**	111, 161
Harley-Davidson	**	26	**	90
Harman International	21	17	**	126
Harnischfeger Inds	975	NM	367	156
Harris Corp	764	655	910	82, 114
Harsco	670	298	392	82, 120, 156
Hartford Steam Boiler	130	71	24	158, 161
Hartmarx	619	639	710	86, 188
Hasbro	66	99	95	168
Hawaiian Electric	671	370	316	132
Healthco International	479	41	407	150
Hechinger	224	191	513	188
HJ Heinz	137	330	175	144
Helene Curtis Inds	342	177	661	126
Henley Group	**	**	**	120, 150
Henley Manufacturing	**	**	**	103
Hercules	196	90	644	82, 103
Hershey Foods	246	401	157	144
Hewlett-Packard	346	453	732	114
Highland Superstores	13	309	988	188
Hillenbrand Inds	272	325	173	126, 150
Hills Dept Stores	**	**	**	188
Hilton Hotels	280	459	422	168
Himont	91	112	**	103
Holiday	414	249	946	168
Holly Corp	142	634	16	178
Holly Farms	252	136	61	144
Home Depot	82	77	433	188
Home Federal S&L	630	124	328	94
Home Group	**	NM	958	161
Home Shopping	**	**	**	188
Homestead Financial	57	237	917	94
HON Industries	200	176	443	158
Honeywell	854	NM	813	82, 114, 158
Geo A Hormel	621	376	129	144
Horn & Hardart	920	NM	962	139, 188
Hospital Corp	677	NM	681	150
Household Intl	377	214	310	136
Houston Industries	424	314	535	132
Hubbell	285	338	201	128
Hudson Foods	20	113	**	144
Hughes Supply	698	358	750	120
Humana	116	656	749	150
Huntington Bcshs	554	524	231	94
IBP	**	**	**	144
IC Industries	818	NM	116	82, 118, 144
ICH	31	132	727	161
Ideal Basic Inds	1026	**	1006	120
IE Industries	667	637	429	132
Illinois Power	362	572	799	132, 174
Illinois Tool Works	333	259	153	156
IMC Fertilizer Group	**	NM	**	103
Imperial Corp of Am	860	NM	688	94
Inco	974	NM	269	172
Independent Insurance	558	596	607	161
Indiana National	486	595	127	94
Ingersoll-Rand	886	NM	491	156
Ingles Markets	416	224	**	139
Inland Steel Inds	971	NM	640	172
Inspiration Resources	1017	NM	947	172, 188

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Integrated Resources	755	NM	943	136, 161
Intel	820	NM	860	114
Interco	754	548	283	86, 126, 188
Intergraph	81	97	726	114
Interlake	663	66	319	82, 156
Intermark	845	NM	451	188
IBM	153	598	805	114
Intl Flavors & Frags	190	423	386	103
Intl Minerals & Chem	924	NM	806	103
Intl Multifoods	568	619	527	139, 144
International Paper	831	227	529	182, 184
Interpublic Group	198	272	112	111
InterTAN	**	614	**	188
Iowa-Illinois G&E	427	621	438	132, 174
Iowa Resources	531	626	624	132
Ipalco Enterprises	354	438	417	132
Irving Bank	839	NM	91	94
Itel	1004	**	62	194
ITT	756	573	737	118, 161
Jacobs Engineering	965	NM	182	120
James River Corp Va	210	341	725	182, 184
Jamesway	468	597	760	188
Jefferson-Pilot	606	308	303	161
Jefferson Smurfit	71	72	35	182
Jepson	5	34	**	118
Jerrico	563	542	703	139
Johnson & Johnson	221	505	254	126, 150
Johnson Controls	525	570	589	90, 158
Earle M Jorgensen	918	NM	812	172
Jostens	149	387	300	111, 188
JWP	77	74	129	158
K mart	432	331	484	188
Kaman	296	217	532	82, 156
Kansas City P&L	556	NM	398	132
Kansas City Southern	803	NM	908	136, 192
Kansas Gas & Elec	730	NM	667	132
Kansas Power & Light	332	522	461	132, 174
Kaufman & Broad	578	80	439	120, 161
Kellogg	26	239	47	144
Kellwood	340	158	115	86
Kelly Services	78	96	96	158
Kemper	567	284	350	161
Kennametal	892	NM	811	156
Kentucky Central Life	452	142	377	161
Kentucky Utilities	571	579	408	132
Kerr Glass Mfg	988	NM	949	182
Kerr-McGee	928	NM	687	178
KeyCorp	390	399	419	94
Kimball International	305	269	543	126
Kimberly-Clark	405	372	152	126, 184
Kinder-Care	266	208	902	94, 158
KN Energy	766	737	759	174
Knight-Ridder	316	386	391	111
Kraft	179	212	28	144
Kroger	585	684	**	139
La-Z-Boy Chair	262	155	581	126
Laclede Gas	336	396	301	174
Lafarge	898	NM	505	120
Lancaster Colony	707	698	569	90, 144
Leggett & Platt	177	185	326	126
Leslie Fay Cos	**	NM	**	86
Eli Lilly	136	405	84	150
Limited	19	57	81	188
Lincoln Electric	725	410	693	156
Lincoln National	627	301	550	161

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WHERE TO FIND THE COMPANY

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Litton Industries	540	699	782	82
Liz Claiborne	14	39	46	86
Lockheed	40	347	778	82
Loctite	289	295	465	103
Loews	118	114	82	100, 161
Lomas Financial	158	375	868	136
Lone Star Industries	778	NM	741	120
Lone Star Tech	998	NM	483	172
Long Island Lighting	598	680	489	132
Longs Drug Stores	363	477	564	188
Longview Fibre	458	27	150	182, 184
Loral	242	216	567	82
Lorimar Telepictures	942	NM	**	168
Louisiana Land	849	NM	690	178
Louisiana-Pacific	824	78	676	120
Louisville G&E	539	493	526	132, 174
Lowe's Cos	322	416	794	188
LTV	1034	NM	1001	82, 172
Lubrizol	513	425	447	103
Lukens	910	NM	117	172
LVI Group	**	NM	821	120
M/A-Com	891	NM	959	114
Mack Trucks	958	NM	933	90
Magma Copper	**	**	**	172
MAI Basic Four	**	NM	**	114
Manor Care	86	117	396	150
Manufacturers Hanover	908	NM	890	94
Manufacturers Natl	672	720	146	94
Manville	863	NM	1002	120
Mapco	498	491	223	178
Marion Laboratories	79	32	40	150
Mark IV Industries	36	25	22	114, 128
Marriott	151	206	224	139, 168
Marsh & McLennan Cos	41	159	186	161
Marsh Supermarkets	665	139	259	139
Marshall & Ilsley	385	402	335	94
Marshall Industries	184	520	795	114
Martin Marietta	201	NM	353	82
Masco	250	233	520	120
Masco Industries	474	56	27	90, 156
Mattel	1025	NM	288	168
Maxicare Health	962	NM	1003	150
Maxus Energy	**	**	**	178
May Dept Stores	368	337	275	188
Mayfair Super Markets	22	64	3	139
Maytag	88	180	459	126
MCA	696	650	472	168
McCormick & Co	359	623	358	144
McDermott Intl	972	NM	921	156, 178
McDonald's	145	305	208	139
McDonnell Douglas	559	516	616	82
McGraw-Hill	162	466	579	111
MCI Communications	916	NM	531	194
McKesson	603	518	418	150
MCorp	927	NM	1013	94
MDC Holdings	119	435	990	120
Mead	689	145	227	182, 184
Medco Containment	825	NM	597	188
Media General	612	651	132	111, 184
Medtronic	253	460	305	150
Mellon Bank	944	NM	951	94
Melville	143	340	249	188
Mercantile Bancorp	744	NM	557	94
Mercantile Stores	326	343	302	188
Merck	106	221	52	150
Meredith	307	496	574	111
Meridian Bancorp	449	436	281	94
Meritor Financial	986	NM	973	94
Merrill Lynch	613	504	858	136
Fred Meyer	167	122	**	139, 188
MGM/UA Commun	**	NM	**	168
Michigan Consolidated	**	NM	**	174
Michigan National	773	NM	94	94
Microsoft	6	18	**	158
Middle South Utils	686	678	684	132
Midlantic	277	434	437	94
Midwest Energy	597	532	508	132, 174
Herman Miller	157	264	728	158
Millipore	454	390	149	150, 158
Minn Mining & Mfg	217	470	540	118
Minnesota Power & Lt	345	455	323	132
Mitchell Energy	822	750	961	174, 178
MMR Holding	**	35	**	120
MNC Financial	464	283	109	94
Mobil	716	580	522	178, 188
Molex	45	318	730	114
Monarch Capital	480	153	614	161
Monsanto	772	NM	549	103
Montana Power	658	675	672	108, 132, 174
Moore Corp	477	475	412	158
JP Morgan & Co	489	723	220	94
Morgan Products Ltd	52	156	769	120
Morgan Stanley	**	NM	**	136
Morrison	509	616	446	139
Morrison-Knudsen	832	NM	606	120
Morton Thiokol	185	556	509	82, 103
Motorola	679	632	869	114, 194
Multimedia	441	NM	162	111
Munford	807	NM	831	139
Murphy Oil	930	NM	773	178
Nacco Industries	147	188	363	108, 156
Nalco Chemical	193	555	746	103
Nash Finch	569	442	72	139
Nashua	534	129	99	158
National City	412	494	197	94
Natl Convenience	609	NM	952	139
National Fuel Gas	544	562	209	174
National Intergroup	981	**	964	150
National Medical	485	677	815	150
Natl Semiconductor	957	NM	942	114
National Service	287	439	421	128, 158
National-Standard	949	NM	904	172
National Western Life	105	622	743	161
Navistar Intl	**	NM	966	90
NBD Bancorp	614	356	161	94
NCH Corp	704	408	168	103
NCNB	356	487	289	94
NCR	394	324	414	114
Neiman Marcus Group	**	**	**	188
New England Electric	293	511	628	132
NY State E&G	602	725	700	132
New York Times	127	184	309	111
Newell Co	301	291	50	126
Newmont Mining	848	NM	577	172
Niagara Mohawk Power	643	754	857	132, 174
Nicor	940	NM	682	174
NIKE	241	687	200	86
Nipsco Industries	862	NM	814	132, 174
NL Industries	1013	NM	979	103
Noland	787	320	401	120

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**Not ranked

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Nordstrom	215	174	76	188
Norfolk Southern	760	694	576	192
Nortek	727	NM	891	120
Northeast Savings FA	834	NM	861	94
Northeast Utilities	379	620	379	132
No States Power	360	540	369	132
Northern Telecom	213	196	863	194
Northern Trust	904	NM	196	94
Northrop	240	76	699	82
No'western Natl Life	741	89	337	161
Norton	935	NM	642	156
Norwest	856	NM	554	94
Noxell	113	230	264	126
Nucor	446	226	504	172
NWA	797	38	658	84
Nynex	507	464	214	194
Occidental Petroleum	847	653	761	103, 174, 178
Ogden	527	NM	329	158
Ogilvy Group	189	357	510	111
Ohio Casualty	676	321	488	161
Ohio Edison	445	537	499	132
Ohio Mattress	391	452	565	126
Oklahoma G&E	523	611	481	132
Old Kent Financial	231	270	206	94
Old Republic Intl	350	389	766	161
Olin	884	NM	502	103
Olsten	173	85	25	158
Omnicom Group	703	NM	**	111
Oneok	759	721	924	174
Orange & Rockland	522	577	541	132, 174
Orion Capital	966	NM	941	161
Orion Pictures	956	NM	772	168
Oshkosh Truck	46	37	928	82, 90
Outboard Marine	738	682	674	168
Owens & Minor	548	209	228	150
Owens-Corning	692	398	**	120
Oxford Industries	487	710	935	86
Paccar	636	205	604	90
PACE Membership	1015	NM	901	188
Pacific Enterprises	684	702	755	174, 188
Pacific G&E	561	676	670	132, 174
Pacific Resources	800	NM	627	178
Pacific Telesis	537	581	215	194
PacifiCorp	382	601	546	108, 132, 194
PaineWebber Group	494	662	936	136
Pall	115	323	503	82, 150
Pan Am	1037	NM	986	84
Panhandle Eastern	938	NM	**	174
Parker-Hannifin	581	367	712	82, 156
Penn Central	871	NM	659	118, 194
Penn Traffic	**	NM	**	139
JC Penney	587	474	325	188
Pennsylvania P&L	641	618	361	132
Pennwalt	806	NM	272	103
Pennzoil	801	748	221	178
Pentair	389	558	456	156, 184
People's Bank	**	**	**	94
Peoples Energy	381	489	229	174
Pep Boys	254	241	156	188
PepsiCo	146	138	77	100, 139, 144
Perini	913	NM	646	120
Perkin-Elmer	757	NM	895	82, 114
Perry Drug Stores	777	NM	934	188
Petrie Stores	323	564	713	188
Pfizer	161	319	485	150

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Phelps Dodge	963	NM	343	172
PHH Corp	276	550	808	158
Philadelphia Elec	623	679	587	132
Philip Morris Cos	80	186	122	100, 144
Philips Industries	117	148	203	120
Phillips Petroleum	752	751	378	178
Phillips-Van Heusen	511	210	600	86
PHM Corp	273	729	976	120, 136
Piedmont Natural Gas	483	498	323	174
Pilgrim's Pride	8	22	**	144
Pillsbury	341	447	75	139, 144
Pinnacle West	520	627	864	94, 132
Pioneer Hi-Bred Intl	321	588	768	144
Pitney Bowes	182	199	133	158
Pittston	990	NM	692	84, 108
PNC Financial	306	468	287	94
Polaroid	819	86	230	168
Pope & Talbot	680	NM	620	120, 184
Portland General	664	738	397	132
Potlatch	739	70	450	120, 184
Potomac Electric	294	313	248	132
PPG Industries	337	182	219	90, 120
Precision Castparts	123	51	19	82
Premark Intl	**	NM	**	126
Premier Bancorp	843	NM	984	94
Premier Industrial	187	428	331	114
Preston	850	747	873	192
Price Co	23	43	177	188
Prime Computer	366	471	790	114
Primerica	607	173	691	161, 188
Procter & Gamble	491	712	570	126
Progressive	55	59	174	161
Provident Life & Acc	512	403	516	161
PS Group	887	NM	555	178
PSI Holdings	34	716	673	132
Public Service Colo	573	585	729	132, 174
Public Service NH	941	NM	969	132
Public Service NM	645	674	957	132, 174
Pub Svc Enterprise	553	630	427	132, 174
Puget Sound P&L	728	397	605	132
Quaker Oats	178	120	65	144
Quaker State	794	NM	803	178
Quantum Chemical	713	147	59	103, 178
Questar	583	703	671	174
Ralston Purina	43	47	104	144
Ramada	907	383	830	168
Raychem	582	406	562	128
Raytheon	236	362	449	82, 118
Reebok International	1	1	139	86
Reliance Group	101	11	**	161
Republic New York	545	728	348	94
Rexene	**	**	**	103
Reynolds & Reynolds	309	193	780	114, 158
Reynolds Metals	934	NM	123	172
Richfood Holding	**	**	**	139
Riggs National	719	746	545	94
Rite Aid	120	288	458	188
RJR Nabisco	168	377	57	100, 144
RLC	769	612	820	192
Roadway Services	460	685	845	192
HH Robertson	980	NM	996	120
AH Robins	1039	NM	767	150
Rochester G&E	586	731	771	132, 174
Rochester Telephone	508	607	448	194
Rockwell Intl	165	256	696	82

Profitability: 5-year return on equity. **Growth:** 5-year annual earnings-per-share growth. **Stock Market:** 5-year price change. **NM:** Not meaningful. **Not ranked.

WHERE TO FIND THE COMPANY

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Rohm & Haas	314	281	435	103
Rohr Industries	214	528	558	82
Rollins	32	131	332	158
Rorer Group	121	307	278	150
Rose's Stores	349	519	866	188
Ross Stores	880	NM	944	188
Rubbermaid	148	190	147	126
Ruddick	549	543	376	139
Russell	308	271	297	86
Ryder System	297	329	657	192
Rykoff-Sexton	681	610	357	139
Ryland Group	93	75	593	120
Safeco	355	116	368	161
St Paul Cos	795	NM	584	161
Salomon	388	701	888	136
San Diego G&E	352	599	290	132
Santa Fe Southern	813	NM	**	192
Sara Lee	188	369	68	144
Savannah Foods	220	697	296	144
Savin	1031	**	1008	158
Scana	453	479	347	132, 174
SCEcorp	364	568	404	132
Schering-Plough	372	430	93	126, 150
Schlumberger	883	NM	905	178
A Schulman	209	225	49	103
Schultz Sav-O Stores	351	106	17	139
Charles Schwab	**	**	**	136
SCI Systems	290	152	848	114
Scientific-Atlanta	874	NM	883	194
Scott Paper	557	111	164	126, 184
Scotty's	693	670	840	188
EW Scripps	**	705	**	111
Seagate Technology	65	73	950	114
Seagram	633	352	476	100
Sears, Roebuck	574	463	735	161, 188
Seaway Food Town	781	628	154	139
Security Pacific	576	756	560	94
Selective Insurance	546	NM	473	161
Sequa	150	14	237	82
Service Corp Intl	396	232	463	126
Service Merchandise	810	NM	783	188
Shaklee	271	565	751	126
Shaw Industries	134	28	217	126
Shawmut National	402	431	533	94
Shearson Lehman	192	605	**	136
Sherwin-Williams	239	215	274	103, 188
Shoney's	180	292	**	139
Signet Banking	434	646	270	94
Skyline	799	289	884	90, 120
AO Smith	858	NM	822	90
Smith International	1023	NM	977	178
Smithfield Foods	318	61	4	144
SmithKline Beckman	76	437	517	150
Snap-on Tools	176	254	171	90
Society	499	327	199	94
Sonat	897	NM	852	174
Sonoco Products	281	257	125	182
Soo Line	954	NM	842	192
South Carolina Natl	369	260	178	94
Southeast Banking	655	658	572	94
Southern Company	435	625	609	132
So N England Telecom	519	490	454	194
Southmark	245	554	987	136, 161
SouthTrust	251	299	210	94
Southwest Airlines	654	688	907	84

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Southwest Gas	456	421	460	94, 174
Southwestern Bell	533	533	243	194
Southwestern Pub Svc	206	578	580	132
Sovran Financial	267	328	525	94
Spiegel	227	36	**	188
Sprague Technologies	984	NM	**	114
Springs Industries	784	615	515	86, 126
SPS Technologies	788	10	355	82
SPX	535	604	625	90
Square D	348	432	697	128
Squibb	170	167	100	150
SSMC	**	NM	**	126
Std Commercial	624	499	226	100, 136
Standard Fedl Bank	**	NM	**	94
Standard Products	73	79	251	90
Standard Register	232	266	293	158
Standard Shares	565	461	340	111, 126, 182
Standex International	605	525	440	118
Stanhome	195	133	34	126
Stanley Works	406	279	536	126, 156
State Street Boston	197	368	58	94
Statesman Group	894	NM	930	161
Sterling Chemicals	**	**	**	103
Stewart & Stevenson	943	NM	134	156
Stone Container	712	NM	204	182, 184
Storage Technology	1036	NM	1004	114
Strawbridge	403	277	236	188
Student Loan	42	101	70	136
Subaru of America	62	NM	956	90
Sun Company	770	665	900	178
Sun Microsystems	17	4	**	114
Sundstrand	732	690	764	82, 156
SunTrust Banks	295	312	734	94
Super Food Services	334	146	242	139
Super Rite Foods	218	567	548	139
Super Valu Stores	169	456	492	139
Sysco	292	384	307	139
Talley Industries	881	NM	471	82, 156
Talman Home Federal	**	**	**	94
Tambrands	64	363	266	126
Tandem Computers	570	175	833	114
Tandy	128	603	796	188
TBC Corp	312	275	119	90
TCF Financial	**	NM	**	94
TECO Energy	459	469	334	132
Tecumseh Products	500	476	416	156
Tektronix	749	691	939	114
Tele-Communications	792	636	53	111, 168
Teledyne	141	236	276	82, 118, 161
Temple-Inland	622	181	375	120, 182
Tenneco	905	NM	677	118, 174
Tesoro Petroleum	1006	NM	865	178
Texaco	952	NM	621	178
Texas Air	1033	NM	238	84
Texas American Bcshs	978	NM	1014	94
Texas Eastern	808	753	825	174
Texas Industries	791	NM	763	120, 172
Texas Instruments	896	NM	882	82, 114
Texas Utilities	418	559	640	132
Textron	604	118	551	82, 118
Thomas & Betts	317	354	639	114
Thorn Apple Valley	933	NM	509	144
TIE/Communications	969	NM	1010	194
Tiger International	1038	NM	235	84
Time Inc	156	128	179	111

Profitability: 5 year return on equity **Growth:** 5 year annual earnings per share growth **Stock Market:** 5 year price change **NM:** Not meaningful. **Not ranked.

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
Times Mirror	111	218	380	111
Timken	950	NM	828	156, 172
Todd Shipyards	997	NM	1005	82, 156
Torchmark	230	135	97	161
Toro	496	98	120	126
Tosco	**	NM	917	178
Toys "R" Us	154	172	198	188
Transamerica	649	407	770	161
Transco Energy	805	NM	853	174
Travelers	724	561	731	161
Triangle Industries	1007	NM	965	182
Tribune	325	62	140	111
Trinity Industries	917	NM	647	120, 192
Trinova	467	60	273	156
Trustcorp	580	514	686	94
TRW	490	NM	756	82, 90
Tucson Electric	229	485	594	132
Turner Broadcasting	**	NM	645	111, 168
Turner Corp	702	NM	841	120
TW Services	634	12	**	139
20th Century Inds	95	107	241	161
Tyco Laboratories	284	467	21	120
Tyler	683	575	963	103, 114, 120
Tyson Foods	63	48	6	144
UAL	811	NM	114	84
UGI	900	NM	457	103, 174
UNC	992	NM	511	82
Union Bank	735	179	349	94
Union Camp	656	515	680	182, 184
Union Carbide	706	NM	656	103
Union Electric	461	602	311	132
Union Pacific	830	NM	651	178, 192
Union Texas Petrol	647	NM	**	178
Unisys	771	NM	494	114
United Artists	505	717	23	111, 168
United Banks of Colo	767	NM	874	94
United Brands	551	366	88	144
United Financial	1022	NM	1015	94
United HealthCare	24	NM	706	150
United Illuminating	710	NM	669	132
United Jersey Banks	376	290	518	94
United Merchants	996	NM	989	86
US Bancorp	608	446	362	94
US Healthcare	35	165	523	150
US Home	999	NM	999	120
US Shoe	611	713	649	86, 188
United Stationers	199	310	406	158
United Technologies	678	727	747	82, 120
United Telecom	814	NM	294	194
Univar	592	706	**	103
Universal	238	388	365	100, 136
Universal Foods	503	600	216	144
Universal Health	742	752	920	150
Unocal	688	734	705	178
UNUM Corp	**	NM	**	161
Upjohn	269	231	80	150
US West	524	539	247	194
USAir Group	517	506	740	84
USF&G	746	NM	723	161
USG	109	65	**	120
Uslico	470	481	498	161
USLife	786	NM	662	161
UST Inc	56	255	341	100
USX	983	NM	838	172, 178
Utah Power & Light	674	649	613	132

Company	Rank: Profitability	Rank: Growth	Rank: Stock market	Industry survey page
UtiliCorp United	265	457	252	132, 174
Valero Energy	960	NM	981	174, 178
Valhi	30	393	190	178
Valley National	750	NM	724	94
Valmont Industries	661	NM	399	172, 188
Valspar	172	246	106	103
Varian Associates	793	NM	953	114
Varity Corp	**	NM	911	90, 156
VF	74	379	304	86
Viacom	**	**	**	111
Village Super Market	504	87	15	139
Vista Chemical	204	NM	**	103
Volt Info Sciences	846	NM	940	158
Vons Cos	**	**	**	139
Vulcan Materials	329	222	160	103, 120
VWR Corp	**	151	**	158
Wal-Mart Stores	38	88	78	188
Walgreen	155	336	442	188
Wang Laboratories	758	NM	991	114
Warner Commun	870	NM	144	168
Warner-Lambert	386	NM	142	150
Washington Gas Light	514	531	431	174
Washington Mutual	555	NM	121	94
Washington National	878	NM	714	161
Washington Post	58	119	113	111
Waste Management	166	140	67	158
Weis Markets	222	374	342	139
Wells Fargo	659	722	64	94
Wendy's Intl	599	NM	916	139
West Point-Pepperell	709	643	424	86, 126
Western Digital	353	NM	608	114
Western Publishing	11	103	**	111
Western S&L	7	82	938	94
Western Union	1030	NM	1009	194
Westinghouse	263	268	322	82, 128
Westmoreland Coal	973	NM	929	108
Westvaco	657	285	469	184
Wetterau	331	380	128	139
Weyerhaeuser	779	164	738	120, 184
Wheeling-Pittsburgh	1028	NM	937	172
Whirlpool	320	513	777	126
Whittaker	751	NM	191	103, 156
Wickes Cos	796	732	970	90, 188
Wicor	628	509	294	174
Willamette Inds	444	16	280	120, 184
Williams Cos	922	NM	721	174
Wilson Foods	1020	NM	445	144
Winn-Dixie Stores	259	593	563	139
Winnebago Industries	270	296	898	90
Wisconsin Energy	367	482	256	132
Wisconsin Public Svc	409	529	405	132, 174
Witco	371	373	528	103
FW Woolworth	420	195	90	188
Worthington Inds	202	235	402	172
WPL Holdings	365	569	428	132
Wm Wrigley Jr	208	265	36	144
Wyman-Gordon	864	NM	945	82
Wyse Technology	15	8	638	114
Xerox	761	591	719	158, 161
Yellow Freight Sys	258	137	552	192
York International	**	NM	**	120
Zayre	255	234	389	188
Zenith Electronics	877	NM	948	114, 126
Zenith National Insur	384	501	675	161
Zurn Industries	715	584	292	156

Profitability: 5-year return on equity. **Growth:** 5-year annual earnings-per-share growth. **Stock Market:** 5-year price change. **NM:** Not meaningful. **Not ranked.

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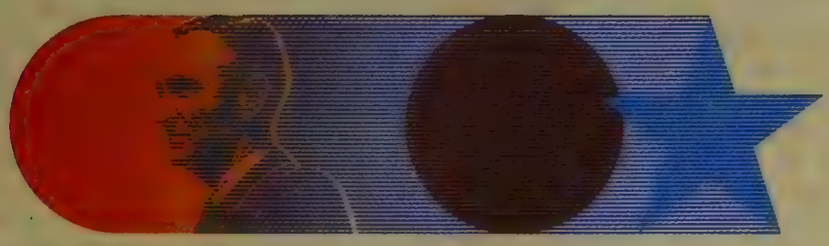
A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield



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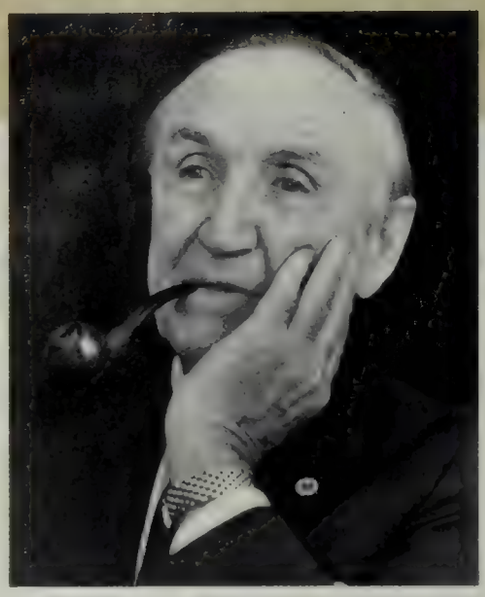
NOBORU TAKESHITA

THE U.S.-JAPAN RELATIONSHIP
THE PRESENT REALITY AND FUTURE AGENDA

BY
MIKE MANSFIELD



AMERICAN AMBASSADOR
TO JAPAN

The presidential transition in the United States offers an opportunity to take stock of the U.S.-Japan relationship.

Over the last decade, I have been privileged to serve as the American Ambassador to Japan. During this period, the vital and productive relationship between our two countries has been buffeted by a seemingly endless series of disputes over market access and unfair trade practices. At times, these frictions have spilled over and threatened to damage our healthy political relationship and even our vital security cooperation.

But do these economic frictions define our relationship or are we missing the forest for the trees? I would like to examine briefly what I believe are the realities of the relationship today and then offer a few suggestions for both sides on what can be done to maintain and build on this foundation.

The Present Reality

As I have often said, the U.S.-Japan relationship is our most important bilateral relationship—bar none. If there is one word that characterizes that relationship, it is interdependence. Let's look first at economics. The importance of the U.S. market for Japan is, I believe, widely appreciated. In 1987, Japan sold $88 billion in goods to the U.S., or 37% of its total exports. What is less understood is that Japan is our second largest market, trailing only Canada, with $28 billion in U.S. sales in 1987—more than we sold to West Germany, France and Italy combined. By far, Japan is our largest agricultural market, with nearly $6 billion in sales in 1987, even before Japan agreed to remove restrictions on beef and citrus imports. The figure is likely to reach $7.6 billion in 1988.

We still do not enjoy commensurate access to the Japanese market that Japan has here, but the trend is in the right direction. Japan's imports from the U.S. measured in dollars rose 40% in the first three quarters of 1988. If this trend continues, I would look for a decline in our trade deficit from $60 billion to around $52 billion by the end of this year.

In the area of investment, much ado has been made in the American press recently about rising Japanese direct and portfolio investment in the U.S. In 1987, the value of Japan's assets in the U.S. reached $33.4 billion, still substantially less than the totals for the U.K. ($74.9 billion) and the Netherlands ($47 billion). But is Japanese capital flooding in? Not compared with investment by Europeans: In 1986 and 1987 new Japanese direct investment totaled about $14 billion, but new European direct investment for those two years was more than $56 billion—more than $31 billion from the U.K. alone!

Conversely, and surprisingly little known, U.S. direct investment in Japan as of 1987 amounted to $14.3 billion. The U.S. is Japan's largest foreign investor, and only five other places are home to a larger share of U.S.-owned assets: Canada ($57 billion), the U.K. ($45 billion), Germany ($24 billion), Switzerland ($20 billion) and Bermuda ($18 billion). If we look only at nonfinancial assets, Japan ranks fourth. The average annual return on that American direct investment in Japan over the last five years has been 21%—more than in any other region, and in my opinion solid evidence of the rewards that can be reaped by American firms that work hard at establishing themselves in Japan's highly competitive market.

Direct investment benefits both countries. Japanese investment in the U.S. creates jobs, expands the tax base, provides healthy competition for American firms on their home turf, and often brings new technology and innovative management techniques into the U.S. economy.

Japanese portfolio investment in the U.S. totals $160 billion. It helps finance our fiscal deficit, while providing the Japanese with a safe and profitable haven for excess capital.

Economic interdependence extends to the science and technology sphere as well. Japan's postwar development has been greatly assisted by access to U.S. technology through open literature, study at American university research centers and licensing arrangements with U.S. firms. The flow has been typically one way, but both governments have taken steps recently through a new science and technology agreement to increase the flow from Japan. There are still language and structural problems—e.g. much U.S. research is done in universities, while most Japanese research is done by private firms—but I am confident that the current imbalance of benefits in this area will be rectified.

Another basic reality of our relationship is the critical importance of the U.S.-Japan mutual security relationship to the defense of Japan and the U.S. and to the stability of the region and the world. Japan receives the benefits of the U.S. nuclear umbrella, providing a strategic guarantee and also contributing to Japan's own defense and helping deter aggression in the region through the presence of U.S. forces. However, Japan by no means enjoys a free ride in the security area, as some have charged. Japan spends some $30 billion, excluding pensions and benefits that the U.S. and NATO allies count as defense spending. If these latter items are added to Japan's budget, it would reach $41 billion, putting it ahead of the Federal Republic of Germany, the U.K. or France, and behind only the Soviet Union and the U.S. Moreover, Japan has increased its defense spending by more than 5% a year for almost two decades, something that cannot be said for the U.S. or NATO. This seemingly small defense budget also buys Japan more destroyers and more antisubmarine planes than we have in the Western Pacific.

More fundamentally, we have to ask what kind of Japanese defense force best serves American and regional interests. Japan's defense objectives are to protect the Japanese homeland and selected sea lanes out to 1,000 miles. Those who advocate that Japan assume responsibility for Asian regional defense or develop an offensive military capability are clearly unfamiliar with the history of East Asia and the sensitivities of Japan's neighbors, not to mention Japanese domestic political constraints.

In addition to a substantial defense effort of its own, Japan also helps by contributing some $2.5 billion for the maintenance of U.S. forces in Japan. These U.S. forces, as noted above, contribute to Japan's defense, but they are also essential to the

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forward defense of the U.S. and protection of the sea lanes that are our life lines. Japan's contribution amounts to about 40% of the total cost of maintaining our forces in Japan, or about $44,000 for each of the 63,000 American servicemen and women stationed there. This is by far the most generous contribution of any of our allies, and we are hopeful that even more will be done in the future.

A third reality of the present U.S.-Japan relationship is the growing global nature of our cooperation. Through our foreign-assistance programs and through keeping our market open to agricultural and industrial products from developing countries, the U.S. has traditionally borne the greatest foreign-assistance burden. We must, and I am confident we will, continue to play a major role in this area. However, we must also acknowledge that Japan's aid program will soon become the largest in the world. In 1988, Japan appropriated $10.4 billion for economic assistance. Its aid gives critical support to the regeneration of democratic institutions in the Philippines and fosters growth throughout the Asian region. Increasingly, Japan's aid also contributes to political stability and economic development in areas farther from Japan—the Middle East, Africa, Central America and the Caribbean.

Aware of the need to assure recycling of its trade surplus to most needy nations, Japan pledged at the Montreal seven-nation summit to concessional flows totaling at least $50 billion over the next five years and to "improve the quality" of its aid by increasing the percentage of grants and united assistance.

Perhaps as important, Japan is absorbing an increasing share of manufactured products from developing countries. For example, Japan has increased its imports from Asia's newly industrialized economies by over 70% in the last two years. Almost all of this represents manufactured goods such as textiles and electronics, making Japan now an engine of growth in the region.

U.S.-Japan global cooperation extends to the political arena as well. Whether it be managing East-West relations, working for solutions to regional problems such as Cambodia and Southern Africa, or providing leadership to international organizations, the U.S. and Japan share a common perspective and commitment. Japan is increasingly playing a more active foreign policy role. I believe it may soon become a truism that no major international problem can be addressed successfully without the cooperation of the U.S. and Japan.

The Agenda

I have painted a picture of a U.S.-Japan tie that is fundamentally mutually beneficial and cooperative. As is apparent in the headlines of the daily newspapers in both countries, however, there are competitive, political and emotional elements that threaten this cooperation. What can both nations do to ensure that cooperation, not confrontation, remains the dominant theme of the U.S.-Japan relationship?

First, I believe that both countries need to adjust psychologically to the new realities. The U.S. is still the world's greatest military, political and economic power, and there is no alternative to American leadership as the world moves into the 21st Century. However, the days are over when we can go it alone or dictate to our allies. As we ask our allies to share more of the burden, we must be prepared to yield them a larger share in the decision-making about what burdens should be undertaken and how. Frankly, we have not always been very good at this. Sometimes we have regarded notification of our intentions as constituting consultation with our allies. Particularly with respect to Japan, many Americans appear to have difficulty accepting the concept of equal partnership.

Japan also needs to adjust. For too long Japan has been content to let the U.S. worry about the world while it pursued more narrowly defined interests. This is changing, as the size and nature of Japan's foreign aid program indicates. It is just as appropriate for Japan to play a more assertive role in supporting the international trading system, helping to resolve regional conflicts through economic assistance, support peacekeeping forces and contribute to the resolution of such global problems as Third World debt.

Second, Japan and the U.S. must take steps to reduce the size of their global and bilateral surpluses and deficits, and thus also reduce the political tension that this huge imbalance creates. An important part of this job belongs to the U.S. Now that the presidential campaign is over, we too must tackle the fundamental economic problems behind these imbalances. We must raise our national savings rate at the personal level—the average Japanese puts about 16% of his income into the bank—and reduce the gap between federal revenue and spending.

Japan is the second largest market in the world. It is not an easy market, but with perseverance it can be penetrated, and it is profitable, as I noted earlier. Still too few American firms make the effort to take advantage of the greater market opportunities that our trade negotiators and Japan's economic restructuring policies have created.

Japan also must take further steps on its own initiative to remove impediments to imports, rather than following the old pattern of waiting until foreign pressure builds and a confrontation results. The Japanese government has already done much at the macroeconomic level to stimulate domestic demand, and thus imports. We have been successful in sectorial negotiations on such items as wood products, medical equipment, telecommunications, beef and citrus. Remaining barriers relate primarily to socially embedded, politically difficult obstacles like Japan's labyrinthine distribution system, strong supplier-customer bonds, and Japanese suspicion of the quality and after-service of foreign products. These areas do not lend themselves to easy solutions. Nevertheless, old habits are crumbling fast under the impact of the high yen, and we look to Japan's leaders to continue to support this evolution by their actions until not a trace remains of Japan's closed markets.

For the longer term, I have suggested, and others have now joined me, consideration of a free trade agreement as an alternative to the endless succession of debilitating trade disputes. Under such an agreement, our two nations would remove the few remaining formal barriers to trade. We would address the more subtle problems: differences in business practices, in policies toward competition, employment practices and economic structure. Most important, we would devise a workable mechanism for prompt resolution of trade disputes. The free trade agreement concept would not be exclusive, and I believe that many Pacific nations might find the idea attractive.

Finally, both Japan and the U.S. should do a better job of educating their publics about the realities and benefits of the bilateral relationship. Too often the press and some politicians in both countries portray the relationship as a zero-sum game—that is, if one side wins, the other side loses. In reality, the U.S. and Japan win or lose together, whether economically, strategically or politically. Our destinies are inextricably linked, and we must manage our affairs with this very much in mind. For two countries whose futures are so closely tied, we know too little about each other. Stereotypes are all too prevalent. Through travel, language training, educational exchange and greater media attention to the realities in both nations, this gulf also can be narrowed.

Mike Mansfield

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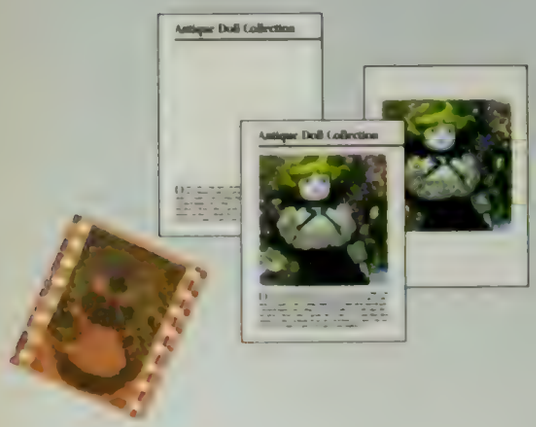
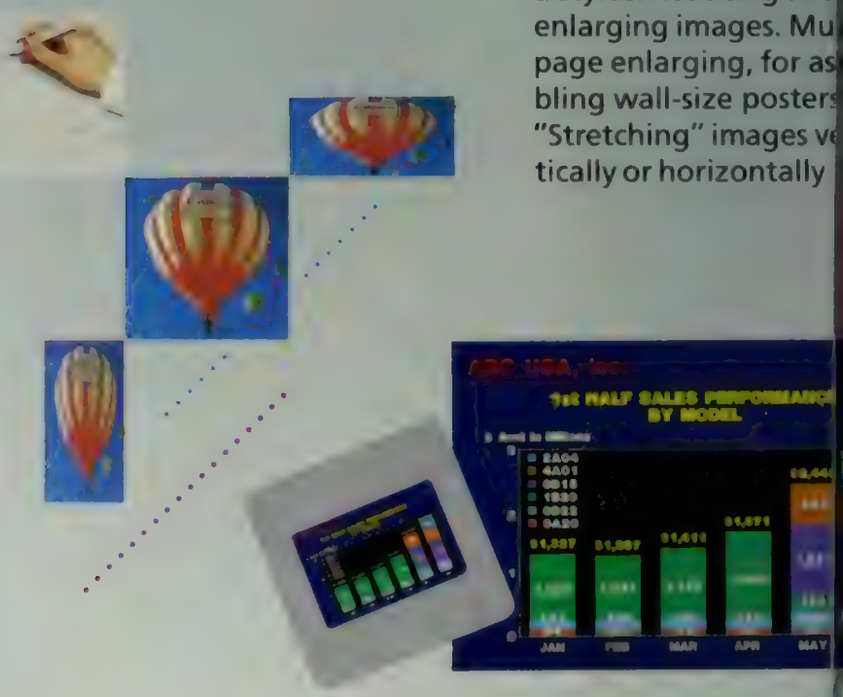
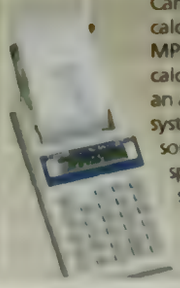
VIRTUALLY anything that you can think of doing with an image—involving alte tion of color, size, or position—you can do the Canon Color Laser Copier with the press c a button, or the stroke a stylus. Reducing and enlarging images. Mu page enlarging, for as bling wall-size poster "Stretching" images v tically or horizontally





Innovation — it's our very foundation. At Canon, development and application of the latest technologies have *always* resulted in products that make visual communication — at home and in the office — easier, simpler, faster, *better*



Canon MP1D Calculator

The newest member of Canon's Palm Printer calculator series, the MP1D offers versatile calculation functions, an algebraic operation system, AC/DC power source, and a printing speed of 1.4 lines per second.

Canon NP-8580 Copier

High-speed, high-performance copying that reduces total job time for better office productivity. Eighty copies per minute, an enhanced recirculating document feeder, an optional 20-bin stapler sorter, and other features.

Canon NP-300 Custom Series

All four model this series offer featured copyi zoom capabilit paper versatilit automatic func Also available: color overlays, color, two-side ing, image edi color conversio

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to fit graphic designs. Enhancing originals by adding, or completely changing, colors—resulting in copies that are not just duplications of, but improvements over, the originals. How? The innovative Digital Image Processing System. An "intelligent" scanner actually reads the images on your original, and microcomputer technology converts them into digital signals—which you can then edit, manipulate, and change to suit your needs.

THE Canon Color Laser Copier. It's a technological wonder, to be sure. But we think of it as simply the latest in a long line of Canon business products designed to help you communicate more effectively. Communicating words, images, ideas. It's what Canon does.

Canon CAR System

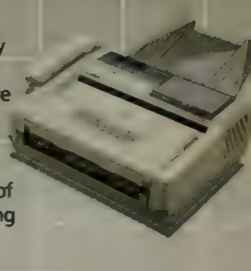
Combining advanced micrographics and data-processing technologies, Canon's CAR (Computer-Assisted Retrieval) System's document/index storage capabilities allow you to file years' worth of records—and yet have instant access at any time to an exact legal copy of any document.

Canon AP850 Electronic Typewriter

The top-of-the-line typewriter that offers a full range of editing functions, and a separate 9-inch display screen, so you can view the equivalent of a half-page of text. The AP850 is so advanced it's virtually a word processor.

Canon FAX-705

Offering a high level of quality and performance, the FAX-705's technology breakthrough starts with Canon's exclusive Ultra High Quality image processing system (UHQ), which allows reproduction of originals with amazing clarity and detail.



COMMUNICATING

The Next Generation of Photography: The Canon ZAP SHOT™ RC-250 Hi-Band Still Video System

THE Canon ZAP SHOT Still Video Camera is based on a completely new concept that allows visual images to be recorded on 2" still video floppy disks, and then played back instantly when the camera is connected to a TV set. No film, no developing, no waiting. The result: instant high-quality still images—in still video form.

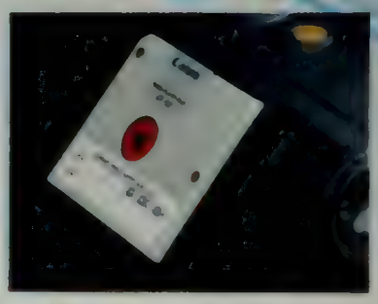
ZAP SHOT is a direct outgrowth of the still video system that Canon introduced for industrial use more than two years ago. Weighing just over a pound and resembling a pair of streamlined binoculars, it provides intelligent automatic white balance and an on-chip pure color stripe filter for accurate recording; a long-life rechargeable lead battery good for up to 500 non-flash images; and continuous shooting at three frames per second.

YOU simply insert your disk, record your images b pressing the shutter-releas button, and when you want to view images, just connect the camera to an TV set and select "play." That's it! With ZAP SHOT, there's no need to pass family photos around the living room—instead, you enjoy them as a group, on TV screen, immediately. In the office, you're sudden able to produce, view, an then erase "instant slide shows." Still video printers will produce full-color ha copies too.

Still Video System: Business Applications

News agencies, law enforcement, medical personnel and educators have all put Canon's industrial-version Still Video System to work in recording and transmitting—over telephone lines—visual information of all kinds. The system records and stores black-and-white or color images on disk. These images can be combined with computer art and desktop publishing programs.

Canon's Still Video System was a key element in international press coverage of recent Winter and Summer Olympic Games in Seoul, Calgary, and Los Angeles, enabling reporters and writers to record and then transmit visuals around the world with ease. It's also used extensively by national newspapers for both news and sports photography.

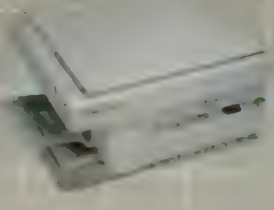


Canon S-68S Personal Typewriter

A sturdy portable – light and compact Features a 90,000 word built in dictionary to check spelling, up to three pages of text memory and a big 31 character display to correct errors before you print

Canon PC-6RE Personal Copier

Small enough for a desk or tabletop, the PC-6RE offers both reduction and enlargement. And the easy-to-replace PC Mini-Cartridge makes it virtually maintenance-free.



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Canon E80 Camcorder

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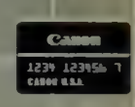

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A Tribute to the Legacy of U.S. Ambassador to Japan
Mike Mansfield

By Brian Robins

When Mike Mansfield took up his position as U.S. Ambassador to Japan in 1977, he was confronted with an economy still comparatively anemic after the hike in oil prices earlier in the decade.

A massive round of government spending had propelled the economy out of the recession stemming from the first oil shock of the early 1970s, and early on in his term, the second oil price rises again threatened to throw the economy into reverse.

At that time, as had been the pattern for the previous decade, exports played a key role in Japan's overall growth—a role that began to attract international criticism in the latter part of the 1970s.

Japan's trade surplus stood at over $10 billion a year in 1977 and 1978, but with the second oil shock, Japan plunged into a $13.8 billion deficit in 1979, followed by a further $10.8 billion deficit in 1980.

But, by the latter part of 1980, the Japanese economy, with its built-in flexibility, was already clambering back out of that reverse, on the back of a healthy boost of exports, as the U.S. dollar began its skyward climb in the early years of the Reagan administration.

UPI/Bettmann Newsphoto

February 29, 1988: President Reagan shakes hands with Mike Mansfield during a courtesy visit to the White House. Reagan presented the ambassador with an award to recognize Mansfield's more than 50 years of government service.

THE WHITE HOUSE

WASHINGTON

October 12, 1988

Mike Mansfield has seen U.S.-Japan relations go through many phases during his more than 50 years of public life. I am particularly pleased that during the past eight years as my Ambassador to Japan, the efforts of this great American have been instrumental both in furthering U.S. interests and in making a vital relationship warmer than it has ever been.

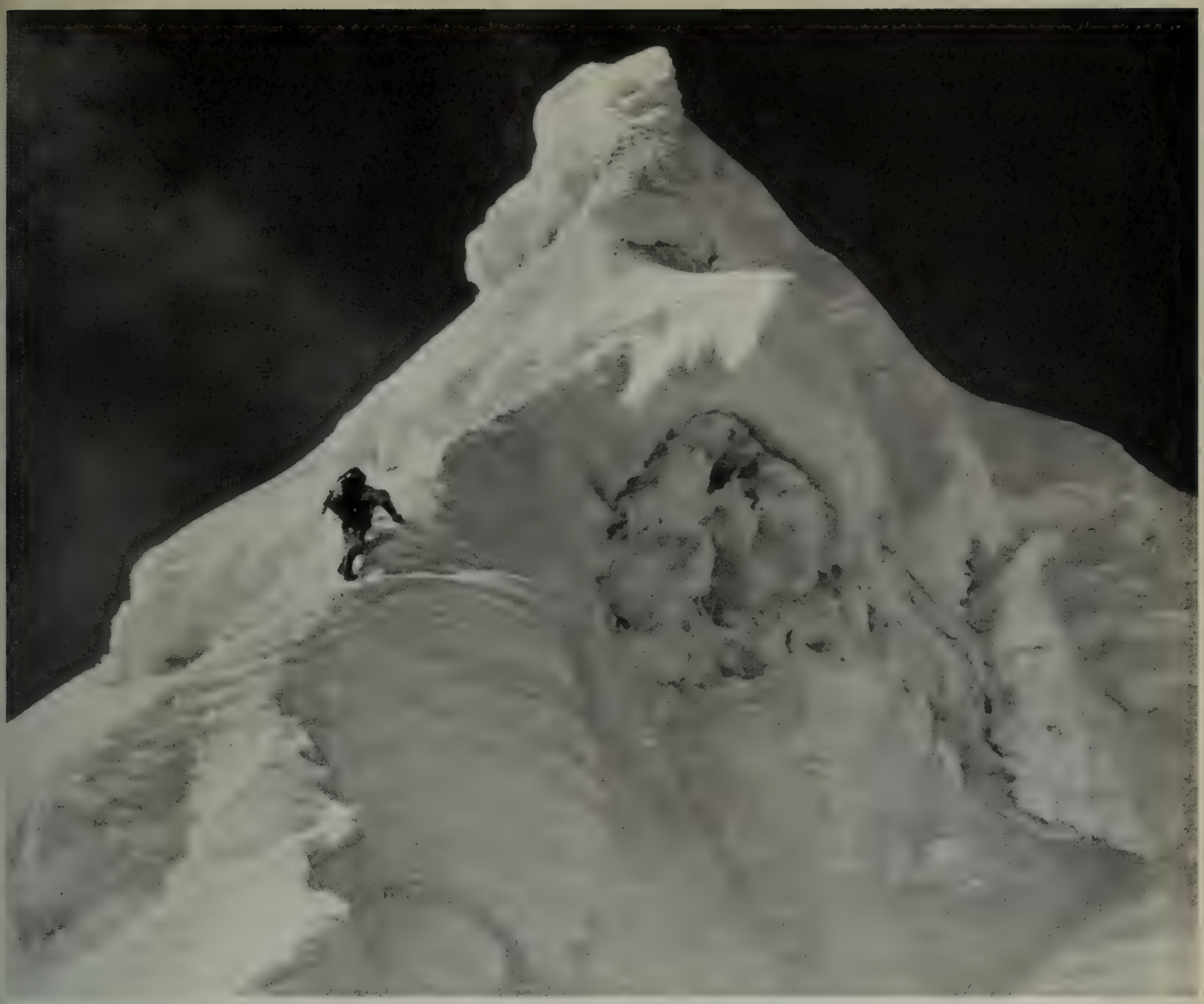
Mike has represented the U.S. with unique distinction. His strong presentation of our case in Tokyo and his wise counsel both to us and to the Japanese have made possible progress on such seemingly intractable problems as American competition for public works contracts, sales of American industrial and agricultural products, and better sharing of defense responsibilities.

Mike has played a key role in harmonizing our policies at a time when Japan is beginning to assume greater economic and political burdens. Its actions in the international free market system are more commensurate with its economic strength, and Japan's part in keeping the peace is increasingly important.

But Mike's greatest contribution—to me as President, to President Carter before me, to the people of Montana he represented so ably in the Senate, and to all Americans—has been as a citizen-statesman, one who knows his people and who conveys their values and aspirations in everything he does.

I can think of no one who has represented America better overseas. All Americans are proud to join Nancy and me in a salute to such a dedicated and experienced statesman.

Ronald Reagan



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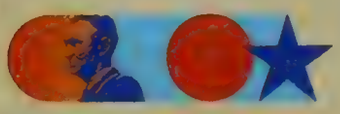
A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield



OFFICE OF THE PRIME MINISTER
TOKYO

December 13, 1988

Dear Ambassador Mansfield:

As you depart from the post, I wish to express to you my profound gratitude for the brilliant achievements you have recorded in the history of Japan–U.S. relations over the past 11 years. I convey this feeling in the capacity of Prime Minister and that of a private citizen as well.

As a good friend with great understanding of this country, you have always dedicated yourself to the strenghtening of our bilateral partnership. I myself have always held in the highest esteem your integrity and warmth, and your outstanding vision that has been developed through your admirable parliamentary career. It is indeed most fortunate to this country to have received a great statesman of your stature as U.S. Ambassador to Tokyo. Particularly since assuming the office, I have been helped immensely by your proper counsel in addressing myself to the management of our bilateral relationship, which I view as the cornerstone of Japan's foreign policy.

You epitomize the friendship and cooperation between our two countries and enjoy the wholehearted respect and trust of the people of Japan. It is both with great sadness and with deep appreciation that I bid farewell to you after your long dedicated service.

Wishing you continued good health and happiness, I am,

Sincerely,

Noboru Takeshita

Noboru Takeshita
Prime Minister of Japan

Noboru Takeshita

The long-term impact of that is now readily apparent, with Japan's trade surplus for 1988 likely to come in at around the $80 billion level, broadly in line with the trade surplus registered in 1987. And early forecasts for the outlook for 1989 is for more of the same. Even though the actual trade surplus, in yen terms, is declining, when translated into depreciating dollars, it shows little change. There has been some improvement in the actual surplus with the U.S., although Japan's trade surplus with the European Community is rising. The fundamental difference with the Japanese economy now, compared with the period while Ambassador Mike Mansfield was in Tokyo, is the fact that Japan's growth is now firmly responding to domestic demand—primarily very strong consumer demand as Japanese consumers finally feel some of the benefits of the appreciation of the yen against the dollar, together with continued strength of private-sector investment. This same pattern is expected during 1989, with export growth to slow a little further, acting as a slight break on the broader pattern of economic expansion.

That change in favor of domestic demand-led growth is fundamental for Japan, which built its economic success on unfettered access to export markets. The sheer strength of domestic demand pushed growth rates above 5% in 1988, the highest of any advanced industrial country. And now the government is grappling with new measures aimed at stimulating further domestic demand—primarily by removing many onerous controls limiting business activity.

The broad theoretical framework for much of the shift to domestic demand was provided by the former Governor of the Bank of Japan, Haruo Maekawa, who in a highly influential report to the government in 1986 argued that deregulation should form the cornerstone of the government's efforts to reorient the economy away from its heavy reliance on exports, in favor of domestic demand.

After initial skepticism, the business community has embraced key elements of the report with a vengeance.

In late 1988, the government set the scene for further tangible moves, when it received a report from an Ad Hoc Administrative Reform committee supporting further deregulation.

This committee fell short of calling for sweeping changes, especially in the distribution sector where onerous government regulations limit the penetration of large

"MIKE MANSFIELD SPENT A VERY LONG TIME IN JAPAN, AND DURING THIS TIME SO MANY THINGS HAVE CHANGED—THE FLUCTUATION OF EXCHANGE RATES, AND THE TRADE IMBALANCE, AND SO ON. BUT HE WAS VERY FARSIGHTED, I THINK," SAYS HIROSHI ASANO, EXECUTIVE VICE PRESIDENT OF HITACHI. "HE SOMETIMES GAVE US ADVICE, AND WE DID NOT IMMEDIATELY REALIZE THE WISDOM. SOMETIMES IT CAME HOME TO US LATER. HE UNDERSTANDS JAPANESE CULTURE AND PRACTICES DEEPLY. ALWAYS, HIS JUDGMENT WAS BASED NOT ON EMOTION, BUT WAS LEVELHEADED. IN THIS SENSE, HE WAS A VERY GREAT AMBASSADOR TO JAPAN. WITH HIS DEPARTURE, WE WILL LOSE SOMETHING DEEP IN JAPAN."

TOYOTA

January, 1989

Dear Ambassador Mansfield:

As the United States Ambassador to Japan for the past eleven years, your challenges have been great. But so, also, have your accomplishments been great.

Through your gracious manner and your deep understanding of our countries' mutual interests in the sensitive areas of trade negotiations, international economic cooperation and national security, you have made an extraordinary contribution to strengthening the very important bond between the United States and Japan.

We salute your accomplishments and extend our sincere gratitude for your innumerable contributions. You will be missed as our Ambassador from the United States. But, above all, you will be missed as a friend.

Sincerely,

Yukiyasu Togo
President

Robert B. McCurry
Executive Vice President

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TOYOTA

A Tribute to the Legacy of U.S. Ambassador to Japan

Mike Mansfield

JIMMY CARTER

December 3, 1988

As President, the single act that brought me the most honor in Japan was the appointment of Mike Mansfield as United States Ambassador. His 11 years of distinguished service in that position are unsurpassed in American or Japanese history. I am glad to join you in paying tribute to his achievements.

The special relationship of the U.S. and Japan is of utmost importance, and Ambassador Mansfield's deep understanding of both nations has given him great influence. He has been able to explain our point of view to the Japanese, and their point of view to us, nurturing our friendship through critical times.

Ambassador Mike Mansfield is a superb scholar, statesman and diplomat, and I join all Americans in thanking him for his outstanding service to our nation and in wishing him well on his retirement.

Jimmy Carter

Jimmy Carter

May 24, 1977: Former Senate Majority Leader Mike Mansfield meets with President Carter at the White House for a farewell meeting before leaving for Tokyo and his new job as U.S. Ambassador to Japan.

supermarkets and chain stores, in favor of protecting old corner stores.

It also sidestepped the need to overhaul the agricultural sector—an issue of continued difficulty for the government, as it refuses any imports of rice, and strictly controls imports of most other primary products such as wheat, beef and dairy products, to protect domestic producers.

The committee did, however, argue that controls in the transport sector be freed up, along with other changes. The small retailers and the agricultural lobby are strong supporters of the government, so it finds itself in a difficult position in seeking to opt for further decontrol, which will erode its own support base.

Nonetheless, while sidestepping any tough decisions in these areas, Prime Minister Noboru Takeshita did pull off a remarkable coup late in 1988, when he managed to force through a comprehensive tax reform—a move which had frustrated former Prime Minister Yasuhiro Nakasone.

As part of the tax reform, a broadly based indirect tax is now in place, with provision for a cut in direct taxes—a shift which should help the government to gradually bring the outstanding level of government debt under control.

At the heart of the Japanese Government's new approach is the broad realization that deregulation fosters economic growth. Recently, for example, the Economic Planning Agency estimated that liberalization moves had added up to Y1 trillion to economic growth levels over the past year alone.

Along with the stimulus provided by the shift of government thinking in favor of deregulation—even though in many quarters it will take some time for the bureaucracy to change old habits—equally important is the massive amount of work underway in rebuilding Japan's infrastructure.

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A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield

Tokyo, November 30, 1988

Dear Mr. Ambassador:

It is with regret and sadness that I bid farewell to you and Mrs. Mansfield. You have made an enormous contribution over the decade to the furtherance of Japan-U.S. ties. Your great service has marked an important era of dramatic developments in our bilateral cooperation.

I fondly recall the days and years when my wife and I, firmly united with the close friendship with you and Mrs. Mansfield, worked together to overcome obstacles and difficulties which emerged between our two countries from time to time.

I am truly appreciative that President Reagan and the U.S. Congress have placed wholehearted confidence in you, and that you have exerted every possible effort to the good of our two nations, warning the Japanese at one time and admonishing your countrymen at another. Such dedication as yours has been essential to our joint endeavors to build an unshakable partnership between Japan and the U.S.

I wish to express once again my deep respect and admiration to you as a former marine hero, a professor of deep insight, a statesman of courage and commitment, and a distinguished diplomat of trust upholding peace and prosperity of the world.

May the coming years be as prosperous as ever to you and Mrs. Mansfield.

With warmest regards,

Sincerely,

Yasuhiro Nakasone

Yasuhiro Nakasone

and highway projects are on the drawing boards, together with many big resort projects, which promises to maintain construction activity at buoyant levels for several years.

The shift that has occurred during Ambassador Mansfield's extended term in office runs far deeper. During this time, largely at the behest of U.S. pressure, Japan has taken enormous strides to free up its financial system, for example. Under the dollar-yen accord of 1984, a variety of far-reaching recommendations were implemented, which has unleashed the yen, and Japanese investors, onto world capital markets.

As well, the Plaza Hotel agreement of September 1985 ensured that the yen moved higher against the U.S. dollar—to the point where parity (that is Y100 to the dollar) is widely expected during 1989 by many Japanese investors. It is doubtful whether a further rise would have a significant impact on Japan's present level of exports, since most big companies are ready for a further hike in the yen against the dollar. Nonetheless, another rise in the yen would stimulate a rise in imports.

Currency volatility, while seen sporadically in the latter part of the 1970s, had not occurred on anything like the scale that has been apparent over the past five years.

As well, unleashing the yen has brought about a heavy round of direct and also indirect investment by Japanese corporations in the U.S.—a development which is attracting some criticism in the U.S., of which Japanese groups are well aware.

Large-scale acquisitions have been made with increasing frequency over the past 18 months, the biggest to date being the $2.6 billion purchase of Firestone Tire and Rubber Corp. by Bridgestone Corp.

Also, the purchase of CBS Records Inc. by Sony Corp. caused ripples in the U.S. Subsequent negotiations by Sony for the purchase of MGM/UA for a reputed $1 billion failed in late 1988.

Equally, active purchases in the U.S. property market have also come under close scrutiny.

Of perhaps equal importance has been the heavy round of investment in new capacity in the U.S. by Japan's big auto groups, due not only to the size of that investment program, but also the impact that it will have on the big three U.S. makers once that new capacity is commissioned.

Even though it may cause some pain, at least in the short term, for all auto producers and assemblers in the U.S., it will also lead to a gradual decline in the volume of direct auto exports to the U.S. from Japan, which will have a tangible impact on reducing Japan's trade surplus with the U.S.

For some, such as Honda Motors, it is now profitable to export from the U.S. back to Japan. Others, such as Mazda and Mitsubishi Motor Corp., are looking at a similar strategy—depending on the outlook of exchange rates markets. The trigger appears to be a rate of Y130 to the dollar.

During his time in Japan, Ambassador Mansfield has witnessed fundamental changes both in Japan and the Asian region. In retrospect, one of the most important may well prove to be the push by former Prime Minister Yasuhiro Nakasone to break the nexus between GNP and defense spending, and permitting an increase in defense spending at a rate faster than that of underlying economic growth—a move that was taken despite entrenched domestic opposition.

Reuters Bettmann Newsphotos

July 25, 1985: U.S. Ambassador to Japan Mike Mansfield meets with Japanese Prime Minister Yasuhiro Nakasone at the latter's residence.

That has set the scene both for a further sustained rise in Japan's own defense spending, along with the prospect that Japan will continue to contribute a higher share of the cost of stationing U.S. troops in Japan, which has already occurred over the past two years.

Ambassador Mansfield has long argued

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At times, Japan's economic triumphs seem even more remarkable at home than they do overseas. How it all comes together with such uncanny synchronicity can often suggest something truly miraculous.

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Nikkei.

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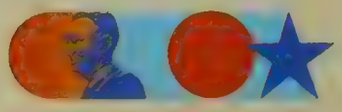
A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield



May 5, 1981: Malcolm Forbes with the Prime Minister of Japan Zenko Suzuki and his wife, Ambassador Mike Mansfield and Arnold Palmer on board The Highlander.

that the Japan-U.S. link is the most important bilateral axis in the world.

Now that Japan has been propelled even further onto the world stage as a result of the rapid rise of the yen against the dollar, this has underscored Ambassador Mansfield's long-standing theme.

Japan's defense spending may be on an upward curve, although it still falls far short of annual outlays by the U.S.

Equally, there is the broad perception in Japan that development assistance programs need to be upgraded, along with a further rise in foreign aid.

Indicative of the gradual increase in Japan's profile in world financial affairs was the proposal put forward by Finance Minister Kiichi Miyazawa at the Toronto Summit meeting seeking to begin steps aimed at resolving the long-running debt crisis, which has dramatically slowed growth rates of many parts of Latin America and Africa.

As many of these issues proceed towards resolution, it is clear that there will be some hard bargaining between Japan and the U.S.

Ideally, the contribution made by Ambassador Mansfield in seeking to deepen links between the U.S. and Japan during his term as Ambassador has laid the groundwork for negotiations on many of these issues to proceed smoothly. Upon his appointment in 1977, one popular newspaper column went so far as to enthuse that the move was one of the most important that had ever occurred between the two nations. Although his appointment was a surprise, it was not overlooked in Japan that prior to going into politics, Mike Mansfield had been a professor of Far East history at the University of Montana, so that he assumed his posting in Japan with some knowledge of the region, continuing the academic tradition of former Ambassador Edwin Reischauer.

Unlike many Ambassadorial appointments, Mike Mansfield is well known and respected for his sagacity and farsightedness. Speak to senior Japanese businessmen about Mr. Mansfield and they will often relate a personal anecdote of his efforts to improve understanding

November 17, 1988

The Most Important Bridge—Bar None
Ambassador Mansfield and I

I heard the news of Ambassador Mansfield's decision to retire with the deep feeling of emotion that Japan would lose the most important bridge with the U.S. that no one could replace. It is widely known among all Japanese that during his eleven-some years tenure in Japan, Ambassador Mansfield has left behind him a giant footstep on the Japan-U.S. relationship.

During my term as the Prime Minister between July 1980 and November 1982, I became befriended with Ambassador Mansfield very closely. There were many occasions that I met with him to hear his views while I expressed mine frankly on all issues between our two countries, sometimes in my office or else at a dinner table. Ambassador Mansfield has kept his insight into Japanese politics, economy and social development with his politician's eye which reflects his over 30 years experience in the Senate. He has always dealt with issues between Japan and the U.S. based on his correct understanding of Japan.

"The U.S.-Japan relationship is the most important bilateral relationship in the world—bar none." The phrase of Ambassador Mansfield's making has gained popularity. It was as far back as seven years ago that Ambassador Mansfield started using the phrase, the fact of which tells us his doubtless foresight. Several other phrases which Ambassador Mansfield mentioned on various occasions still clearly remain in my ears. To name a few:

> "These are the Pacific Decades....The partnership between Japan and the U.S. promised to brighten the future of these decades."
>
> "Separate and apart—to repeat—we lose a great deal of our strength. But so much depends upon this relationship. Together we can do a lot....that if it means sacrifice, let's sacrifice."

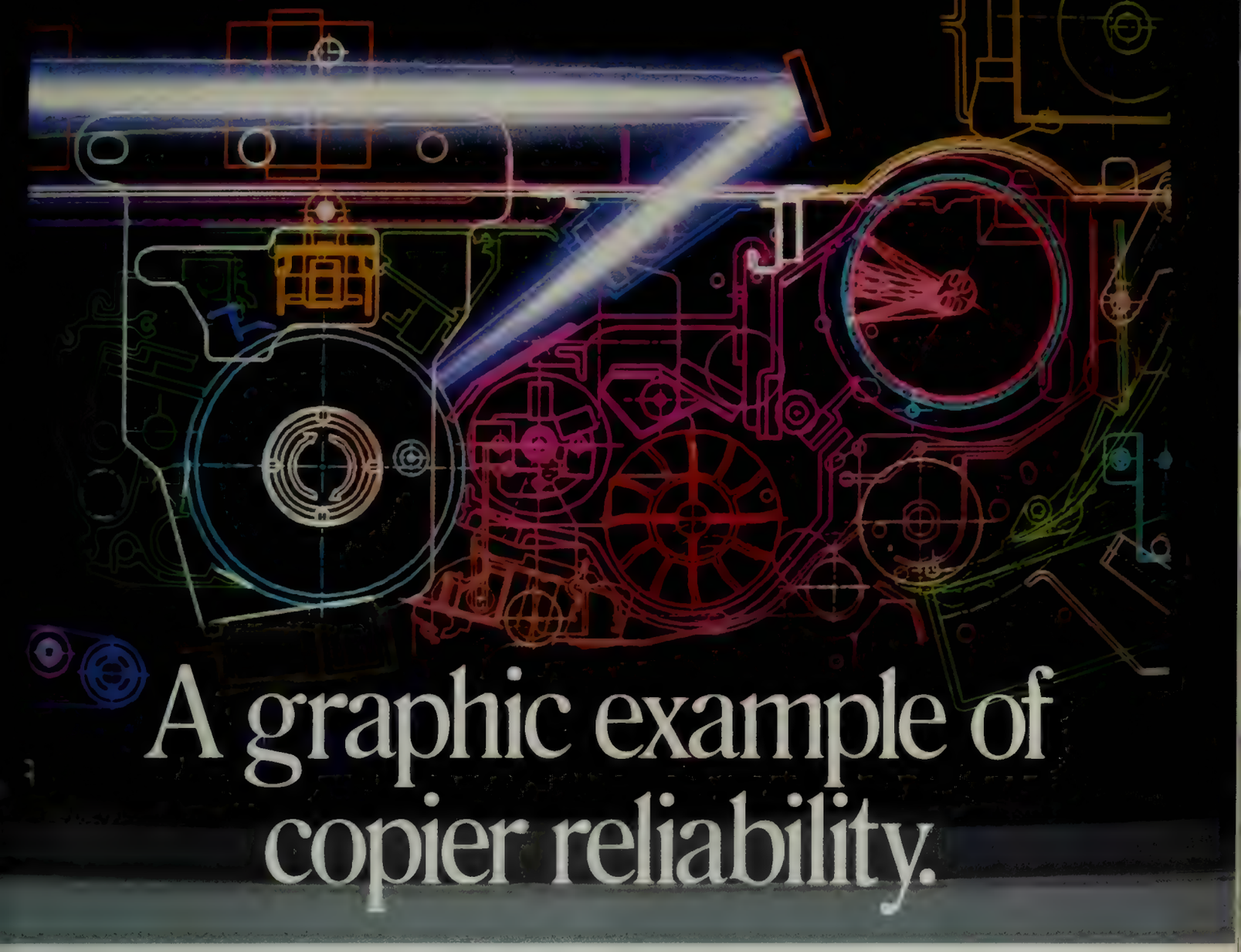
There is one episode which I remember so vividly as if it happened yesterday. At the time of my visit to the U.S. in May 1981, I was guided by Ambassador Mansfield into the Congress. It was there that I heard calls of "Mike" from every corner of the floor in the thunder of applause. I saw the greatest respect of and sympathy from the fellow congressmen to the senior statesman, and I could not but think of the good fortune of Japan having had such a person as Ambassador.

I hear that Ambassador and Mrs. Mansfield are going to retire to their home state of Montana. I would be most happy if Ambassador could give us the benefit of his valuable high opinions even after his retirement.

Last but not least, my wife and I express our best wishes for the continued good health of Ambassador and Mrs. Mansfield.

Zenko Suzuki

Zenko Suzuki



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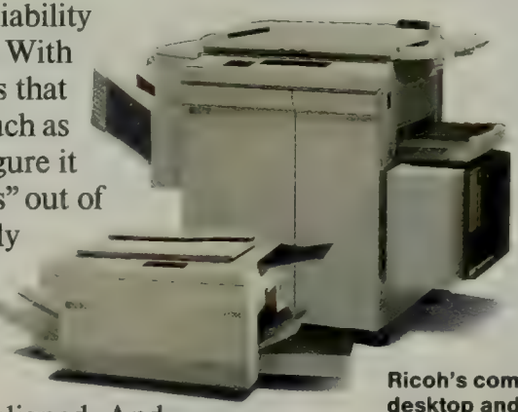

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A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield

between the two countries. (See sidebars throughout this supplement).

For Japan's big semiconductor makers such as Hitachi and Toshiba, 1988 has been an exhilarating year, with booming demand for larger chips translating almost directly into stronger earnings. "Considering past 'silicon' cycles, we are approaching the downward trend," argues **HIROSHI ASANO**, executive vice president of Hitachi. "The present buoyancy will probably continue until the second quarter of 1989. By the third quarter, things will start to slow.

"At present, demand for memory chips is very strong. In particular, demand for one-megabit chips is strong, and also for static memory chips. Due to supply shortages, this will continue for a little longer," he says.

The big challenge to be met during 1989 will be the move from one-megabit chips to four-megabit chips. "Historically, we expect the shift to occur," argues Asano, "but the timing is still difficult. We at Hitachi have already developed the four-megabit chip, and production will begin next year, but the timing is not precise. Next year will be the takeoff, but we may face difficulties in the early stages. But during the early 1990s, production volumes will rise, and the price will decline.

"At that time we will have to determine whether the one or the four-megabit chip is more profitable." Hitachi's Asano says. "The four-megabit chip will be an epoch-making event." The rising importance of electronic devices to future operations has led to increasing emphasis on ongoing R&D in this field. "Slightly less than 50% of revenues come from the electronics division," Asano says, "and this field requires R&D. So, in this sense, R&D spending will remain at present levels, or will increase. It cannot decline."

While continuing to boost R&D activities, Hitachi is also evolving a new strategy to cope with ongoing technological change. "Our engineering resource, including human resources for R&D, is limited," notes Asano, "so when we find better products or goods produced outside of Hitachi, we don't hesitate to source outside the group.

"Also, in fields such as software development, it's becoming more sophisticated and complex," continues Asano, "so sometimes it is better to work jointly with customers. One company, such as Hitachi, cannot do everything alone. So in this sense, a decentralization of business operations is important."

For Toshiba Corp., its four main business pillars are information/communications systems, electronic devices, heavy electrical apparatus and consumer products and others. The trend of the past few years has been for an increasing portion of R&D spending to be focused on information and communication systems and semiconductors, since these are the areas that will hold the key to future successes.

In the short term, the so-called "silicon cycle" of semiconductor business is being watched very carefully, especially the timing of the next slowdown in demand. "At present," says **JOICHI AOI**, president of Toshiba Corp., "some people say that there is now a decline in the silicon cycle. Rather, we take a more bullish view. There is a shortage of supply, especially in memory devices, and this trend will continue for another six months.

"FRANKLY, I WAS SURPRISED WHEN MIKE MANSFIELD WAS APPOINTED TO JAPAN AS U.S. AMBASSADOR, BECAUSE OF THE IMPORTANT ROLE HE HAD PLAYED IN THE CONGRESS, AND I WAS IMPRESSED THAT SUCH AN IMPORTANT MAN WAS TO BE SENT TO JAPAN," RECALLS YASUO SHINGU, PRESIDENT OF SUMITOMO METAL INDUSTRIES. "DURING THE PAST 11 YEARS THERE HAVE BEEN SO MANY PROBLEMS. IF THE U.S. AMBASSADOR TO JAPAN WAS A DIFFERENT PERSON, THINGS MAY HAVE BEEN WORSE. THANKS TO THE HARD WORK OF MIKE MANSFIELD, RELATIONS BETWEEN THE TWO COUNTRIES HAVE IMPROVED, SO I APPRECIATE HIS ROLE VERY MUCH."

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"To solve the shortage problem, we are nvesting further, but still we cannot keep p with demand. Toshiba has the largest hare in one-megabit dynamic random ac-ess memories and four-megabit chips is ne next step. Last summer, we began hipping engineering samples, and in November we started to release commer-ial samples to customers. We are prepar-ng production of the next-generation hips, but we must carefully examine the narket trend and customer needs to decide ne timing of going from one megabit to our megabit."

For Toshiba, the push further into the eld of electronic devices comes as it is ndertaking continuing efforts to stream-ne production in the wake of the currency ike of the past three years.

In some product areas, that involves a wo-pronged strategy of shifting more pro-uction to the final markets, especially in ne U.S. and Europe, while also stepping p production in areas such as Southeast Asia.

Thailand is one of the prospective laces for new investments, and Toshiba ecently established a new manufacturing ompany there that will produce small-size olor picture tubes, starting in February 990.

"We are now studying which products vould be the best to produce," President Aoi says of the group plans in Thailand.

The aim of boosting production in the larger final markets is not limited only to Toshiba. Mazda Motor Corp, for example, has recently commenced auto production in the U.S.

"Our production system in Japan is different from the auto production system in the U.S.," says **Norimasa Furuta**, president of Mazda Motor Corp. "With our system at Mazda, we invite worker participation and quality control by way of quality circles and suggestions.

"So, one characteristic is to get the involvement of our plant workers. Once our new employees in the U.S. become accustomed to this participatory system, we are sure that productivity levels will rise further. One key issue to be confronted over the next 18 months is the impact of rising Japanese auto production in the U.S. on the overall market.

"With slim prospects of a rapid increase in demand in the U.S. market in the near future, and with the addition of one million units of capacity by Japanese auto makers, it is natural for us to presume that there will be severe competition.

"What will result won't affect just the big three U.S. makers, but also all of the Japanese makers. The outcome will be shared by all players in the marketplace. "One of the possible results may be a further reduction in the number of completed autos from Japan. In fiscal 1987, the actual volume of shipments to the U.S. fell short of the voluntary restraint agreement limit, and this year again, exports will fall short of the quota."

For Japanese auto groups, they have been buoyed by unusually strong demand for autos in the domestic Japanese market and in particular of larger autos. That has, in turn, helped boost demand for steel and steel products in the domestic market. A beneficiary has been Sumitomo Metal Industries, one of Japan's largest integrated steel producers.

"I believe that steel production peaked in 1988, and will decline over the next two years," says **Yasuo Shingu**, president of Sumitomo Metal Industries.

"Steel production in fiscal 1988 will reach around 105 million tons, declining to slightly less than 100 million tons.

"In the coming years, more auto and electric appliance makers will begin operations overseas, and therefore, this will result in a decline in domestic steel demand. So, in the medium term, I'm not sure where demand will stabilize, but it

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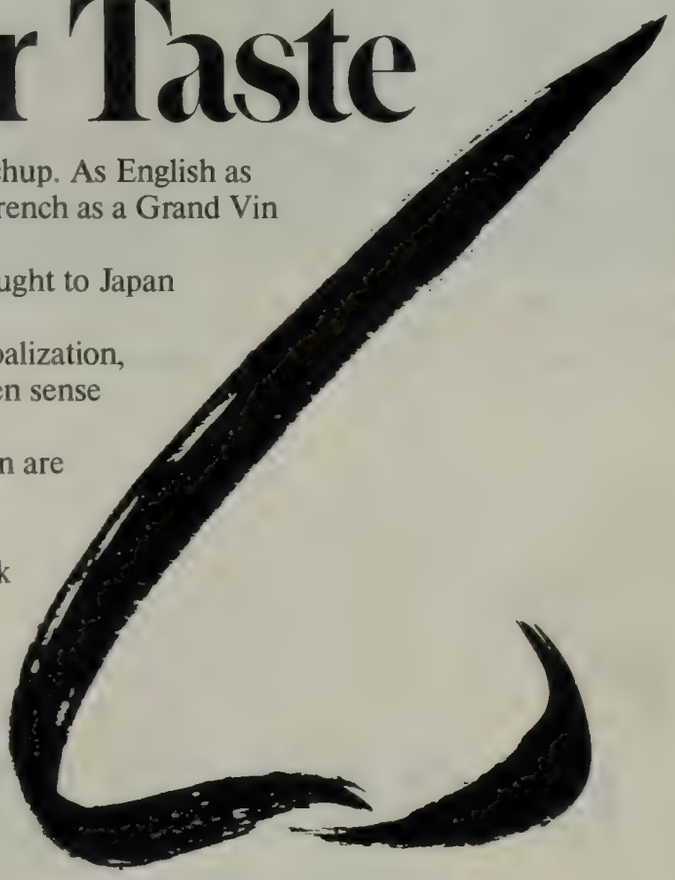

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Hitachi's wide-ranging technologies in communication (from left to right) optical fibers, image signal processor, advanced telephone exchange system, satellite communication, and machine translation system.

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Hitachi's scientists and technicians' longerm goal is to break the language barrier. They are diligently at work today on an array f projects that will vastly improve the communications of tomorrow.

For example, we've made tremendous rogress on a system to translate Japanese nto English.

This system can be used to translate arious scientific/technical papers and nachinery/equipment manuals. Special glossaries" can be developed to adapt it for elds as diverse as medicine, electronics nd aeronautics. Further development could ead to automatic telephone translation or ven portable verbal translators for travelers.

In addition to the machine translaon system, Hitachi's research specialists re also developing advanced transmission systems that send your phone calls or business data across great distances using hair-thin optical fibers and laser beams. They are also working on other new methods of communications, such as advanced telephone exchange systems, satellite communication systems, TV conferences, and so forth.

At the root of much of this is our highly advanced computer technology: because Hitachi is producing some of the fastest, largest-capacity systems available today.

We link technology to human needs. We believe that Hitachi's advanced technologies will result in systems and products that are functionally sophisticated but easy to use. Our goal in communications—and transportation, energy and consumer electronics as well—is to build products and systems that will improve the quality of life the world around.

HITACHI

Hitachi, Ltd. Tokyo, Japan

A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield

will probably be around the 90 million ton level." Faced with these longer term problems, Sumitomo Metal Industries is constantly seeking to increase the added value of its production, to manufacture more sophisticated products, and to ensure steady growth over the next decade.

For Japan's steel industry, it has managed a quick return to the black after heavy losses in 1986 and 1987—thanks to the strength of domestic demand, effective policies to boost steel export prices, and also heavy restructuring programs aimed at slicing production costs.

In the longer term, Sumitomo Metal Industries sees itself evolving more as a materials company, producing a broader array of products.

"During the 1990s," asserts Shingu, "the fastest growth areas will be the areas of electronics, computer systems and communications networks." With this in mind, Sumitomo Metal Industries has stepped up its activities in these fields. Its semiconductor manufacturing equipment division has developed an entirely new technological approach, for example, paving the way for the production of four-megabit, and larger computer chips. The group is also very active in developing new-generation technology in the areas of hybrid integrated circuits and ceramic capacitors, to name just two. But while looking beyond the steel industry for longer term growth, Sumitomo Metal is a committed player in Japan and the U.S. In a joint venture with LTV Corp., it has a plant producing coated steel sheets, and a second plant is now under study.

"ALTHOUGH I MET MIKE MANSFIELD ONLY ONCE, I HAD THE IMPRESSION THAT HE IS A TRUE GENTLEMAN, IN THE ORIGINAL MEANING OF THE WORD," SAYS JOICHI AOI, PRESIDENT OF TOSHIBA CORP. "HE WAS ALWAYS THINKING OF THE RELATIONSHIP BETWEEN THE TWO COUNTRIES, AND PLAYED A ROLE AS A BRIDGE BETWEEN JAPAN AND THE U.S., AND I WOULD LIKE TO PAY TRIBUTE TO HIS SERVICE."

"Output from the new plant will be principally aimed at the auto sector, since demand here is growing rapidly."

Reflecting the importance of Japanese investors to the U.S. financial system, Yamaichi Securities, one of Japan's "big four" securities houses, gained a primary dealers license last year.

"The U.S. bond market is one of the centers of world financial markets, and price development affects markets in Japan and Europe, says HITOSHI ISHIHARA, managing director of Yamaichi Securities Co.

"By gaining primary dealership, Yamaichi America becomes one of the elite of the U.S. financial market. Also, it means we can deal in U.S. Government bonds with state and municipal governments, which are restricted to dealing with primary dealers only. So it is a big morale boost."

THE SECRETARY OF STATE
WASHINGTON

November 2, 1988

I am delighted Forbes Magazine has chosen to honor in this special issue the man who has served for the past decade with great distinction as our country's representative in Tokyo—Ambassador Mike Mansfield.

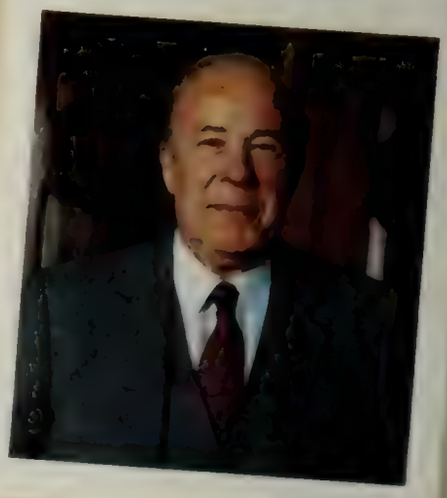
For over half a century, Mike Mansfield has been involved with East Asia, from the time when he taught Far East history at the University of Montana, through his service as chairman of the Senate Subcommittee on Far Eastern Affairs, in numerous overseas missions on behalf of presidents since Franklin Roosevelt, and now as Ambassador to Japan.

Professor, majority leader of the Senate for the longest period in history, and most recently Ambassador—Mike Mansfield is a man of unparalleled experience and wisdom. He is also a straight shooter, with a well-known reputation for telling the unvarnished truth. So it was no surprise that, although appointed during a Democratic administration, Mike Mansfield was the first ambassador re-appointed by President Reagan.

The years during which Mike Mansfield has been in Tokyo have witnessed a tremendous growth in ties between the U.S. and Japan. In addition to maintaining the greatest overseas trading relationship in history, the U.S. and Japan now are linked by a vast network of ties—in politics, defense, finance, science, technology and education. When Mike Mansfield talks about this remarkable relationship, he invariably concludes by stating, "The U.S.-Japan relationship is the most important bilateral relationship in the world—bar none!"

Among those who have dedicated their lives to public service, Mike Mansfield is the finest there is—bar none!

George P. Shultz



Secretary of State George Shultz

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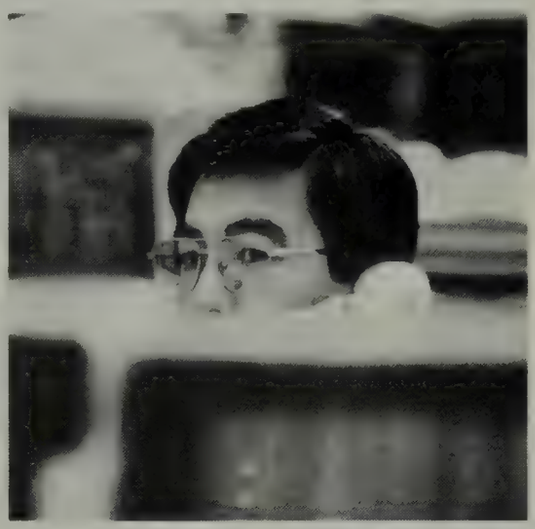

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A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield

The Maureen and Mike Mansfield Foundation is a non-profit educational organization committed to improving understanding and helping to facilitate solutions to key issues in Asian/Pacific affairs, along with ethics and public affairs. The Mansfield Center is located on the University of Montana campus in the Mansfield Library shown above.

"I THINK MIKE MANSFIELD WAS ONE OF THE GREATEST AMBASSADORS BASED IN JAPAN—PERHAPS ONE OF THE GREATEST OF ANY COUNTRY," SAYS YUZABURO MOGI, MANAGING DIRECTOR OF KIKKOMAN CORPORATION "HE NOT ONLY UNDERSTANDS THE JAPANESE SYSTEM, THE ECONOMY AND POLITICS, HE ALSO UNDERSTANDS THE PEOPLE. THAT IS WHY HE HAS BEEN WORKING VERY WELL AS A BRIDGE BETWEEN THE TWO COUNTRIES. "WE CANNOT EXPECT ANY RELATIONSHIP WITHOUT PROBLEMS, BUT THE WAY TO APPROACH PROBLEMS IS THE KEY. SOMETIMES THEY CAN'T BE SOLVED, BUT THE APPROACH IS VERY IMPORTANT, AND MANY JAPANESE AND AMERICANS APPRECIATE HIS APPROACH."

To celebrate the gaining of the license, Yamaichi was extremely active in the U.S. bond tender in early November.

A continuing spectacle in world financial markets is the enduring strength of the Tokyo market, which is heading ever higher, as if the crash of October 1987 had never happened.

"The Japanese economy is expected to continue expanding soundly," says Ishihara. "Real economic growth in fiscal 1988 will be around 4.8%—the highest of any advanced country." In light of this, the Tokyo market will stay at its current levels, and the Nikkei 225 index should easily surpass the 30,000-point level by spring. Not only is the economy strong, but also Japanese personal financial assets will soon top Y760 trillion. But of that, slightly more than 20% is invested in securities. Americans, by comparison, invest just under 40%.

"Also, as the biggest creditor nation in the world, Japan has huge excess liquidity."

It may come as a surprise, but in fact one of the biggest Japanese investors in the U.S. is property group Shuwa Corp.

Robert Wallis/JB Pictures

"Our American corporation is capitalized at $820 million, or Y120 billion," says SHIGERU KOBAYASHI, president of Shuwa Corp. "So, on a capital basis, it is ranked 177th in the entire U.S., 14th in California, and 31st in Japan.

"There are only seven or eight large banks that have a larger capital in Japan, illustrating the extremely small capital base of most Japanese corporations. Conversely, a large sum of capital is an important element for a Japanese company to gain credit and trust as a local American company.

"Previously, only large Japanese corporations such as banks and trading companies opened up business activities in the U.S. However, today, corporations which previously confined their activities to Japan, such as real estate companies, restaurants and even sushi shops, are now setting up in the U.S. This will, of course, cause concomitant problems, such as can already be seen in Hawaii, where there is now a whirlpool of criticism against Japanese real estate companies. I am afraid that the situation could become very grave if investments are not made in an orderly fashion. The key to the issue is the ability and the attitude of the president of the company concerned."

As a professional property investor, Shuwa is keenly aware of the enormous difference between Japanese and U.S. property markets. We are investing in U.S. property based on our own management philosophy.

"According to my own feeling," Kobayashi says, "the cost of living in the U.S. is only one tenth of that of Japan. Possessing Y10 million in Japan is only the same as possessing Y1 million in the U.S.

"Recently, my grandchild who lives in Los Angeles came to visit us in Tokyo and commented that we didn't have a swim-

JB Bergman Newspapers

May 1, 1987: Prime Minister Yasuhiro Nakasone shakes hands with President Reagan at the end of two days of meetings; U.S. Ambassador to Japan Mike Mansfield, George Shultz and George Bush look on.

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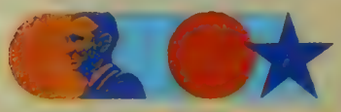
A TRIBUTE TO THE LEGACY OF U.S. AMBASSADOR TO JAPAN

Mike Mansfield



Alain Guilloo

Mike Mansfield receiving the Capitalist Tool vest from Malcolm Forbes during the Japan Friendship Tour.

Robert Forbes

Toyota's Toyoda

ming pool or a tennis court.

"Everyone knows, of course, why there is such a difference between Japan and the U.S. It is because land prices in Japan are so high. If the rise in the land prices could have been checked, personnel costs also would not have risen as they have."

For Shuwa Corp, which has a long history of activity in the U.S., in the longer run, its ambitions are broader.

"My company first started doing business in the U.S. over 10 years ago, and our activities there are now on a par with those in Japan. We are now considering how to work in the European Community, and in the newly emerging industrial countries of Asia," concludes Kobayashi.

For Brother Industries, even with its extensive international operations in place, ironically the difficulty of broadening its base in Japan continues to cause pain.

"Overall, Japan has come to the point where we simply cannot afford to produce and export from Japan," says **Katsuji Kawashima**, president of Brother Industries. "So we have now reached the turning point. For us, things are becoming increasingly difficult since we were dependent heavily on exports.

"The challenge is the expansion of production bases overseas. This is particularly important, to give us the competitive edge and to enable us to cope with trade friction.

"Along with developing further in foreign markets, we also need to increase our domestic market penetration. So, by taking these actions, we can globalize our operations, and obtain a better operating balance."

For Brother Industries, it is now moving further into the field of electronic products; for example, facsimile machines for use both in the home and the office.

To power the group's product development in the future, Brother Industries has established a research laboratory, with [illegible] building up new products that [illegible] capitalize on the group's traditional [illegible] and marketing channels.

One of the fastest-growing items of office equipment in the U.S. market at the moment is facsimile machines and Ricoh, one of the biggest makers worldwide, is confident that demand will continue to grow.

"Yes, we are very optimistic," says **Hisashi Kubo**, executive vice president of Ricoh. "The growth rate has been phenomenal recently, and it will probably stabilize at about a 20% to 30% growth rate a year, although it is a very competitive market. In the future, Ricoh expects that there will be a much greater systems approach to the office equipment market. As a result, the group is using its areas of technological strength to ensure that it will survive increasing competition.

"The area of image processing systems—not only image, but also word and data processing, will be the new arm of our activities in the future," asserts Kubo. "Business prospects in the image processing industry are very promising. This also includes optical filing systems.

"We are also headed in the direction of stand-alone OA systems. In terms of hardware, there are two ways to go—either integrated, or stand-alone systems.

"We are confident that Ricoh has sufficient capability to successfully market integrated OA systems. Even so, no one company has all of the necessary capabilities on its own, and companies may have to collaborate in developing full systems.

"Ricoh, for example, is working in the communications field with ATT, and in data processing we have tied up with IBM Japan to market systems domestically."

With its network of production facilities in Japan, the U.S. and Europe, the group is well positioned to take advantage of regional market trends. "During the 1980s, Japanese companies began to move some production offshore. But at Ricoh we set up our first plant in the U.S. in 1973," Kubo says. In this sense, Ricoh was some 10 years ahead of the rest of Japanese office equipment industry.

"And we have adhered to this policy. We take the view that different markets have different needs. And to meet those needs, you have to shift not only production, but also R&D offshore. We now have one R&D center in the U.S., and we are soon to establish a similar facility in Europe.

"So our efforts involve not only production, but also R&D in the end market," says Ricoh's Kubo.

"Our philosophy is to maintain a unique development concept," says **Hideo Tashima**, president of Minolta. "We have succeeded in incorporating two contradictory concepts—to include sophisticated functions, and to make the camera simple

"MIKE MANSFIELD AND HIS TEAM HAVE WORKED VERY HARD TO COORDINATE ATTITUDES IN BOTH JAPAN AND THE U.S. AT A MOST DIFFICULT TIME," SAYS KATSUJI KAWASHIMA, PRESIDENT OF BROTHER INDUSTRIES. "NO ONE QUESTIONS THAT POINT. I ARGUE HE PLAYED A VITALLY IMPORTANT ROLE IN COORDINATING VIEWS."

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to use. The result was the Autofocus SLR MAXXUM 7000 and the recent MAXXUM 7000i. We have created a new market.

"At Minolta we started from making cameras, and by using these techniques, advanced into making photocopiers. These two business areas form the core of our activities.

"But looking to the future, we need new technologies. Over time, the convenience of office equipment will gradually result in its penetrating the home market. We recognize that there are many difficulties in achieving this in the short term.

"However, I am sure there is great potential for equipment originally designed for office use to move into the household in the near future." In the case of Minolta, while it is continuing to work hard to maintain its technical leadership of the camera industry, its future lies more and more in the office equipment sector.

"In general, society is moving toward an information-oriented society," Tashima continues. "So more advanced office equipment systems will emerge. We are working in the field of opto-electronics. Also we have capacity in printers and processors.

"One clear advantage of Minolta is that we are experts in the field of optics and mechanics. But as we are not a computer maker, we will need to collaborate with other companies when working in the field of larger office systems."

Minolta is unusual among Japanese companies, since exports comprise 80% of sales, although this may decline to 75% in the present financial year. Exports are likely to remain at this level well into the future.

"In Japan, we have a population of over 100 million, in the U.S. about 200 million, and in Europe over 300 million," Tashima says. "With this ratio of people and markets, it is not strange for our sales in Japan to comprise only 20% to 25% of the total.

"MIKE MANSFIELD SERVED AS A VERY EFFECTIVE MEDIATOR IN PROMOTING UNDERSTANDING BETWEEN THE TWO COUNTRIES," SAYS NORIMASA FURUTA, PRESIDENT OF MAZDA MOTOR CORP. "HE SERVED MOST EFFECTIVELY IN THIS MOST DIFFICULT PERIOD. HIS UNDERSTANDING OF BOTH AMERICAN AND JAPANESE CULTURES IS VERY IMPORTANT, AND WE OWE HIM AN ENORMOUS TRIBUTE FOR HIS CONTRIBUTION. "TAKE THE VOLUNTARY RESTRAINT AGREEMENT COVERING AUTO EXPORTS FROM JAPAN TO THE U.S., IMPLEMENTED IN 1981. PRIOR TO THAT TIME, THERE WERE HEATED DISCUSSIONS BETWEEN THE U.S. AND JAPANESE GOVERNMENTS, AND I KNOW HE EXERTED GREAT PERSONAL EFFORTS TO RESOLVE THE ISSUE. I WAS IN THE GOVERNMENT AT THE TIME, AND I WAS AWARE OF HOW HARD HE WORKED, PERSONALLY."

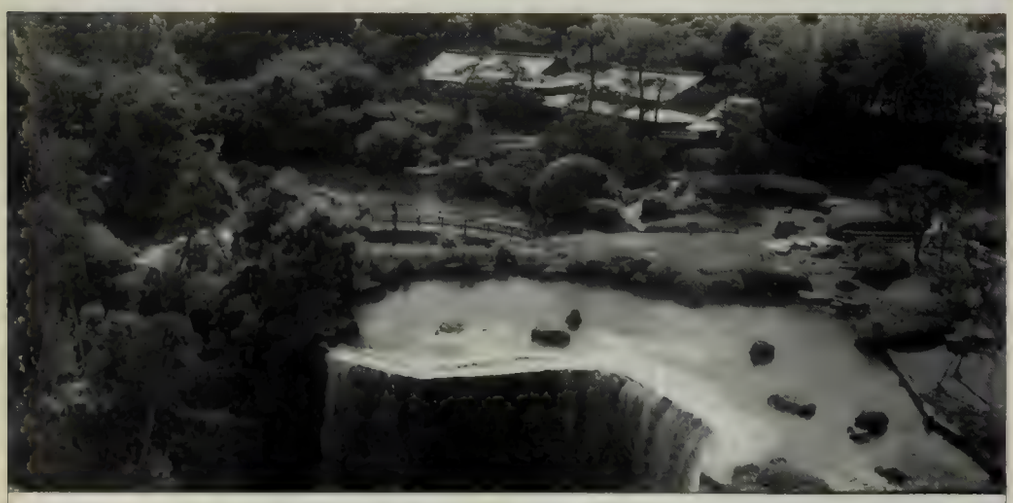
"Of course, in management terms, it means that we have to cope with the difficulties of fluctuating exchange rates, trade friction, and so on. But looking at the world market for our range of products, I think that 25% is the optimal level for sales in Japan."

For Japan's manufacturing sector, the surge of the yen against the dollar has forced a complete restructuring, in the manufacturing and also the service areas.

For the New Otani Co., Ltd., operator of the New Otani group of hotels, after the initial shock, it has turned into an enormous boost. The group is now in the middle of one of the most ambitious expansion phases in its history. As a result, group revenues over the next five years may go close to doubling.

The flagship hotel, the New Otani in central Tokyo, is well established in the business travel market sector. To further consolidate that position, the group is embarking on a major commercial property development adjacent to the hotel. The plan is for a 29-floor development, with retail outlets on the first six floors, and commercial offices in the balance of the tower. Construction is scheduled to commence with completion due for 1991.

"Many international companies are already aware of our plans, and we have



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> *"Although the waves may sometimes be high, we should not condemn the sea, for it nurtures all of us."*

You have played the role of a father for Japan. All the people of Japan will view your departure with regret. Your memory and the spirit of your accomplishments will be treasured legacies for the Japanese people in the years to come. I wish to express my most sincere appreciation to you.

小林茂

Shigeru Kobayashi
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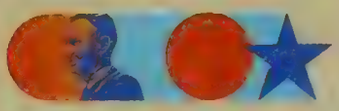
Mike Mansfield



June 10, 1977: Newly-appointed U.S. Ambassador Mike Mansfield arrives at the Imperial Palace to present his credentials to Emperor Hirohito.

had numerous enquiries for whole floor leasings," says **NARITO SASAKI**, assistant to the general manager.

That building will be opened at about the same time that a new 300-room hotel will be finished at Chiba, adjacent to Tokyo along Tokyo Bay, which will also be a convention center. As well, a 350-room hotel complex is scheduled for completion in Kobe.

"Since the appreciation of the yen against the dollar," Sasaki says, "the importance of Tokyo as a world business center has grown, even though there has been a decline in tourist numbers coming to Japan."

With its numerous developments underway, the New Otani Hotel group will, by the early 1990s, be well placed to handle the rising business opportunities that will emerge.

For food group Kikkoman Corporation, as Japan becomes more important internationally, so too are the food tastes of its traditional customers changing—both in Japan and overseas.

"Japan's eating habits are changing, forming new Japanese foods which are a mixture of traditional Japanese foods, and American, European and Chinese dishes" says **YUZABURO MOGI**, managing director of Kikkoman Corp. "It doesn't mean that Japan's eating habits are becoming westernized but rather, internationalized.

"From that point of view, it is very difficult for a Japanese company to introduce new products. So many Japanese food companies have introduced new products on a trial and error basis, and most disappear within a year. Fortunately, we have had more success.

"A few years ago, there was a boom in 'shochu,' a traditional Japanese spirit. We have been in this market for 70 years. So we introduced a new product, 'Triangle,' which has been highly successful. Even though shochu sales are declining now, our sales continue to expand."

As one example of the changing tastes in Japan, Kikkoman successfully developed a teriyaki sauce product in the U.S., which it is now exporting to Japan, as the group moves further into providing pre-seasoning products, in line with changing lifestyles worldwide.

For many business travelers to Tokyo, the choice of the Imperial Hotel has been automatic for years. With its central location and high level of services, it is a longstanding favorite of many business travelers. So much so, that it was recently voted the best independently operated hotel in the world.

"Business people have to stay with us, because we are in the center of the business district," asserts **ICHIRO INUMARU**, president and general manager of the Imperial Hotel. "Business people come because of the location, the luxurious service, and other services, such as airline offices, business facilities, and so on.

"I'm not seeking high occupancy. The average room rate is more important for us. It is easy to fill to 100%. But for us, a good room rate, and 80% to 85% occupancy is optimal, so that we can provide the best services.

"Then people can request their favorite room. I don't want to disappoint our many repeat customers."

The Imperial Hotel could easily expand its number of rooms from the present 1,140 but, if anything, it is considering a slight reduction, so that it can increase the availability of convention and meeting facilities, which continue in high demand.

The reversal of fortunes between the U.S. dollar and the yen over the past few years, may have slowed the growth of the number of inward-bound passengers traveling to Japan, but the number of outward-bound passengers continues to reach new peaks.

As a result, the drawn out regulatory effort by United Airlines to retain its direct service between Seattle and Tokyo assumed special importance. United's purchase of the Pacific Division of Pan Am in 1986 placed the Seattle-Tokyo route in jeopardy. Recently, United's authority for that route was reaffirmed by the Department of Transportation.

"United is gaining market share in the increasingly competitive Asian market," asserts **STEPHEN M. WOLF**, chairman and president. "Although the depreciation of the dollar against the yen has limited the growth of pleasure travelers from the U.S. to Japan, business travel continues to be very strong.

"We also see a significant number of pleasure travelers from the U.S. going through our Pacific hub at Narita on to other Asian destinations United serves," says Wolf.

"Most significantly, the volume of Japanese business and pleasure travelers to the U.S. is extremely strong for United. The positive outcome of the Seattle-Tokyo route case allows United to continue to compete more effectively with other major international carriers."

THE COOPERATION OF THE PARTICIPATING COMPANIES IN THIS SUPPLEMENT HONORING MIKE MANSFIELD FOR HIS OUTSTANDING SERVICE AS AMBASSADOR TO JAPAN IS GRATEFULLY APPRECIATED.

Brian Robins is an experienced business and finance writer who has lived in Japan for several years.

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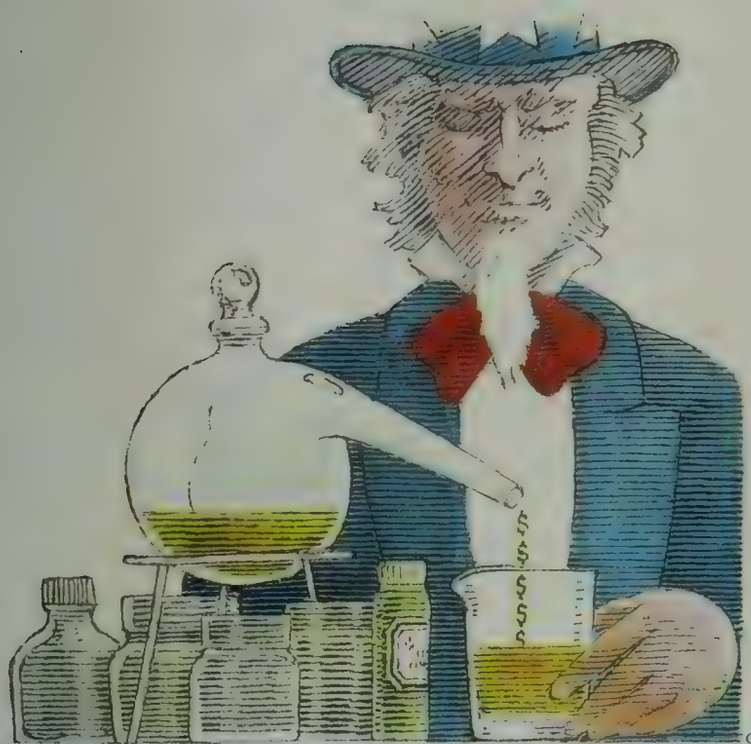
Edited by Laura Saunders

Early returns on the 1986 corporate tax changes: Aerospace and construction were clobbered; meatpackers, furniture makers and drug companies fared very well.

Who got reformed?



Chas B Slackman

Winners and losers

Some industries have seen their effective tax rates drop due to tax reform. But overall, the corporate burden has risen 3.2%.

Industry	Change in tax rate*	1987 effective rate	Industry	Change in tax rate*	1987 effective rate
construction	+33.1%	58.9%	oil & gas extraction	–10.1%	23.9%
aerospace	+21.1	36.7	meat products	–7.7	30.0
petroleum refining	+19.7	24.9	metals-primary	–7.5	11.7
transport-railroads	+11.4	23.9	apparel	–7.0	34.8
lumber	+10.8	29.2	furniture	–5.7	33.6
rubber	+9.8	21.9	tobacco	–5.0	33.1
measuring instrs	+9.2	29.6	stone, clay, glass	–4.4	27.0
chemicals-misc	+8.4	32.7	retail drug stores	–4.3	34.7
publishing	+8.4	36.2	drugs	–3.8	22.1
beverages	+8.2	31.4	banking	–2.6	23.6
US industry average	+3.2%	24.7%			

*Change in effective tax rate, in percentage points. (An increase from a 10% rate to a 15% rate would be shown as +5%.)

Source: Tax Analysts.

"I PAY MORE TAXES THAN GE!" said the protesters' signs a few years back. Congress responded with a tax "reform" that included a substantial corporate tax increase. Tax changes included a small cut in corporate rates coupled with a large cut in corporate tax breaks. The combined effect was to increase corporate tax collections in 1987 to $83.9 billion, or $7 billion more than they would have been under the old law.

But not all industries fared equally badly, a new study confirms. Compiled by Tax Analysts, the Arlington, Va.-based publisher of the industry weekly *Tax Notes,* it gives effective corporate tax rates for 1,000 large U.S. firms for 1987. *(For methodology, see box, p. 298.)*

The study shows that publicly owned corporations paid 24.7% of the income reported to shareholders as taxes, up 3.2 percentage points from 1986. "Overall, tax reform is making firms pay a higher percentage of their income in taxes," says Tax Analysts counsel Mark Starcher, who conducted the study. "That's wrong, because it simply hides the taxes ultimately borne by people. But that's what Congress wanted."

What's interesting are the wide variations in the law's effect *(see table).* Some industries got big tax increases, while for others the effective tax rate fell.

Among the losers were construction companies, whose average tax rate more than doubled, to 58.9%. They had relied heavily on the completed-contract method of accounting, which allowed them to defer taxes on partially completed projects,

and on installment sales provisions that allowed them to defer taxes when property was sold on credit. Both of those tax breaks were curtailed. Aerospace companies were also big users of the long-term contract deferrals and saw their average rate go from 15.6% to 36.7%. And there's more bad news to come for both groups, because the long-term contract rules were tightened further in 1987 and again in 1988.

Other sorely missed benefits are the 10% investment tax credit and artificially short depreciable lives for property and equipment. No wonder, then, that the hardest-hit industries include capital-intensive ones, like rubber, petroleum refining and rail transportation.

The winners tended to be industries that are more labor-intensive or that didn't lose their special breaks: meatpacking, apparel and furniture. One apparent winner—primary metals—had a falling tax rate, in part because so many rebounding steel companies were using loss carryforwards from earlier years. But that doesn't mean the steel companies got any bonanza from the 1986 law.

Two industries that emerged from that law unscathed were drugs and insurance. Both are big, powerful and profitable, and each saw its rate drop slightly after tax reform.

With drug companies, the overall industry rate was 22.1% in 1987, down 3.8 percentage points from a year earlier. The key is the so-called possessions tax credit. It allows firms to take a tax holiday by running up research expenses in the U.S. while ascribing profits to pill-manufacturing operations in Puerto Rico, where tax rates are low for such sought-after employers.

Stock insurance companies keep their taxes low—only 14% in 1987—by claiming large reserves against future liabilities that are far distant (for life companies) or unpredictable (for property and casualty companies). In the last few years Congress has, in exasperation, turned to setting dollar targets for the industry to contribute to federal coffers. It will probably attack the issue again this year. But if the past is any guide, the rates will stay low.—L.S.

One company's taxes

How much did General Motors pay in federal taxes last year? Tax Analysts, an Arlington, Va. research group, figures GM had a negative federal tax burden of $1.9 billion on U.S. profits of $307 million, for an effective rate of minus 633%. A rival corporate-tax watcher, the Nader-backed Citizens for Tax Justice, says GM qualified for a $742 million refund, on profits of $2.4 billion, for a tax rate of minus 31%. GM itself says it paid $73 million in 1987.

Calculating effective corporate tax rates is a messy business. Messy, but politically important. Congress toughened corporate minimum taxes in 1986 because companies like General Electric and General Dynamics weren't paying some people's idea of a "fair" share.

But tax burdens are as much a matter of interpretation as of accounting facts. Consider a bank that accepts lower returns on municipal bonds because they are tax-exempt. In economic terms the bank is paying an indirect tax equal to the interest it forgoes. But it doesn't send a check to the IRS for the amount, which leaves banks open to the charge that they use "loopholes." And what about a company that loses $1 billion in 1986 and makes $1 billion in 1987? Logically, it shouldn't owe tax for a biennium in which it broke even, but in the Tax Analysts formula, it would show up as enjoying a zero tax rate in 1987. Forrest Marovelli, an accounting manager who compiled the numbers for Tax Analysts, says it is, in practice, almost impossible to trace loss carryforwards from year to year.

Confusion is compounded by the fact that corporations don't release their tax returns. They do, however, publish tantalizing details about their tax bills in footnotes to the income statement. From these footnotes it is possible to make intelligent guesses about actual taxes paid. Tax Analysts also got help from some unpublished GM data.

What can an outsider do? For starters, you can ignore the "provision for income taxes" that appears on the income statement. That number bears little relation to the size of the check sent to the IRS. For one thing, it includes state and foreign income taxes. For another, it includes money set aside for taxes that will be due in later years but that relate to profits made this year. For example, if GM takes fast depreciation on its tax return, it will lower its tax payments this year but have less depreciation—and therefore higher taxes—in a later year. GM handles this situation by reporting in its provision for income taxes the amount it pays immediately plus an additional sum for "deferred" taxes. The deferred taxes don't get sent to Washington right away. They are tucked away in a reserve.

Now turn to the footnotes. General Motors reports that its "current" federal tax for 1987 was minus $1.3 billion, meaning it got the equivalent of a refund for that amount. This figure does not include any of the reserves for deferred taxes. For a variety of complex reasons, it doesn't necessarily equal the bottom line on GM's tax return, but it comes closer than the "provision for income taxes" number in the income statement.

The "current" figure seems like a good one to use for true taxes paid, but different groups using the same footnotes come up with different numbers for effective tax rates. One reason is the GM finance subsidiary that finances cars. Citizens for Tax Justice includes that subsidiary's results in its tax numbers. Tax Analysts does not. General Motors' annual report does not, although GM did file a consolidated return with the finance sub. Thus, the $1.3 billion "refund" probably appears nowhere on GM's tax return, on which the car operations and the finance sub are lumped together.

Why doesn't Tax Analysts report GM's tax burden as minus $1.3 billion, the figure in the footnotes? Like the very matter of deferral itself, this issue relates to timing. In essence, there were some tax savings that could reasonably be assigned either to tax year 1987 or to an earlier year. Assign them to an earlier year and the tax burden in that earlier year looks lower. Assign them to 1987 and the tax burden in 1987 looks lower. Tax Analysts assigned them to 1987, thereby making 1987's effective "refund" larger.

And what is the $73 million figure that GM reports as its true tax burden for 1987? The company refuses to say just what the number represents or how it was calculated.—L.S.

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NAUTICAL QUARTERLY

Everyone knows that a dollar promised in 1994 is not the same as a dollar in hand today, but present corporate accounting rules don't always make this distinction.

Time is money

By Penelope Wang

It is said that accounting, like law, is a profession that has a rule for every situation. If that's true, then why don't accountants have a consistent standard for when, and under what circumstances, to use one of the most fundamental measurements of finance itself—the time value of money?

As anyone who has bought a bank CD knows, the yield on an investment is basically a function of how much money is invested at what rate of return for how long. In theory, both assets and liabilities of corporations can be measured in the same way. For liabilities: How much money would be needed today to pay for an obligation that does not come due for 5 or 10 years—future health obligations of not-yet-retired workers, say, or the projected pension liabilities of a firm 10 or 20 years in the future? For assets: What is the "present value" of a financial asset—a mortgage, say, or a corporate bond—that is due to mature in the year 2013? In both cases, the solution comes from taking the future value or cost of the asset or liability in question, then using an assumed rate of interest over the period of time involved to "discount" it back to its present value.

Unfortunately, the accountants who actually prepare financial reports have few—and often highly inconsistent rules for when and how to make those calculations in preparing balance sheets. "Financial statements are becoming irrelevant to business decision making," complains G. Michael Crooch, partner at Arthur Andersen. "We are not measuring items according to their economic value because we're ignoring the time value of money."

Now at last the Financial Accounting Standards Board seems willing to face the problem, by adding a discounting project to its agenda. New rules are years away, but they eventually could have a dramatic effect on corporate financials. Depending upon what FASB finally decides, present value accounting could be used for virtually any transaction that involves a long delay before final settlement. Potential targets for discounting include impaired assets, product and manufacturers' warranties, and loss reserves for property-casualty insurers.

Chas B. Slackman

Present value accounting could in some ways be quite a boon to corporations, by reducing the liability side of their balance sheets. How? By recognizing that $1 million payable in 1994 is not as effectively large a liability as $1 million payable in 1989. That's common sense. If you were to take $600,000 and invest it at a relatively modest 10%, it would equal $1 million by the time the liability would need to be paid. Thus the effective liability is not $1 million but $600,000.

For example, under current FASB income tax accounting rules, deferred taxes must be booked in full, rather than discounted forward to the time when they are due. Thus, General Electric had a $3.1 billion deferred tax reserve in 1987. "That $3.1 billion is more than we'll really have to pay, considering the interest effect," notes Bernard Doyle, GE's manager of corporate accounting services. We're not talking peanuts. The discounted value of that liability is hundreds of million of dollars less than book value.

In a few cases, present value accounting is already required by FASB. Under a new FASB statement regarding pension accounting, General Electric in 1987 reported only a $15.5 billion liability based on an 8.5% rate of return; without discounting for present value, the liability would have been much greater.

Present value accounting obviously helps a company put its best foot forward, and of course could be abused. How? By making unrealistically high assumptions about interest rates. "Experience has shown that, in many cases, insurers have not been adequately funded in the past," notes Denis Callaghan, analyst at Alex. Brown. "If they were allowed to use discounting, the problem could get worse." Maybe, but any company that overdiscounts the future liability risks having to take major writeoffs as the liabilities come due. All in all, present value accounting has lots to recommend it.

Arthur Wyatt, Arthur Andersen & Co. accounting partner, sums up: "Any company routinely considers present values when doing deals. Why shouldn't investors have that information in the financial statements?" ■

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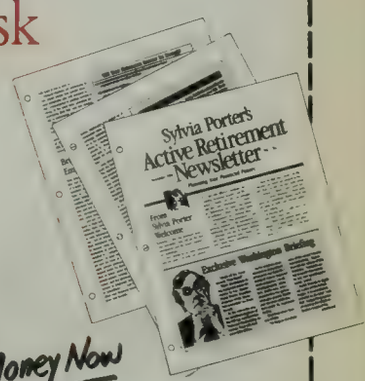

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Computers/ Communications

Entrepreneurial startups are a major American strength in the microchip battle with Japan. In the case of fast chips, history may be repeating.

Speed demons

By Kathleen K. Wiegner

"FASTER! FASTER!" cried the Queen in Lewis Carroll's *Through the Looking-Glass.* But Alice had to run as hard as she could just to stay in place. To really get somewhere, the Red Queen said, you have to run twice as fast as that.

Computer makers find themselves in Alice's running shoes these days. No matter how speedy their machines, a competitor's announcement can make them obsolete even before the first box is shipped. Minicomputers have caught up to older mainframes and now microcomputers are nipping at the heels of minis. Egging all these racers on are the users, who demand ever fancier tricks from their computers but don't want to wait for the computer to pause and think.

To get speed, computer makers expect more and more from chipmakers. Commodity chips will not do. Some larger chip manufacturers, in particular Motorola, Hitachi, Fujitsu and National Semiconductor, are doing some exciting work with fast chips, but a company's size is not the only determinant of success in this part of the chip market. Some tiny startups are making themselves felt.

The problem for the computer makers is that in electronics you don't get speed for nothing: The faster a chip does its job, the more power it needs. Electric bills are not the issue. What counts is that more power translates into more heat dissipated by the chip. The more heat, the more money that has to be put into air or liquid cooling systems. A small computer is not competitive if it has some kind of air conditioner attached to it and has to be put into a special computer room.

Chips made with a process called CMOS (complementary metal oxide semiconductor) need very little power to work, but they are slow. Chips made using a process called bipolar are a great deal faster but are more expensive to make and generate a lot of heat. Mainframes and supercomputers can make use of bipolar chips because the cost of their systems is so large that neither the extra cost of cooling nor the space to house the cooling devices is an issue.

But as computer makers below the mainframe level clamor for more speed, chipmakers have found that a bipolar technology used extensively in mainframes can, with some fiddling, be made less power-hungry. The technology is called emitter-coupled logic, or ECL. The idea of arranging electronic circuits in this fashion has been around for decades. The recent innovations have been in how to get the costs and heat of ECL down without compromising the speed.

A sideline for the bigger semiconductor houses, ECL is the lifeblood of Bipolar Integrated Technology, a five-year-old outfit in Beaverton, Ore. The $10 million (1988 sales) company has signed an agreement with Sun Microsystems to develop an ECL version of Sun's reduced-instruction-set microprocessor. If it works, that combination will pack a double dose of speed, a mainframe-like 50 million instructions per second.

Processor chips, which execute instructions for tasks such as fetching data from memory or doing a sum, are built around transistors, miniature versions of the devices that go into your stereo amplifier. What ECL describes is not a new transistor but a new way of hitching any old transistors into a circuit. It takes at least five transistors hooked together to do an elementary bit of logic, such as looking at two inputs (each 1 or 0) and deciding whether they are both 1.

What makes ECL so fast? The voltage swings that define the 0s and 1s of the binary code are smaller in an ECL chip than they are in competing chips. This is achieved by keeping the transistors in a semiready state. Think of it this way: Keeping your car engine on idle wastes gasoline. But if a fast

Warm chip

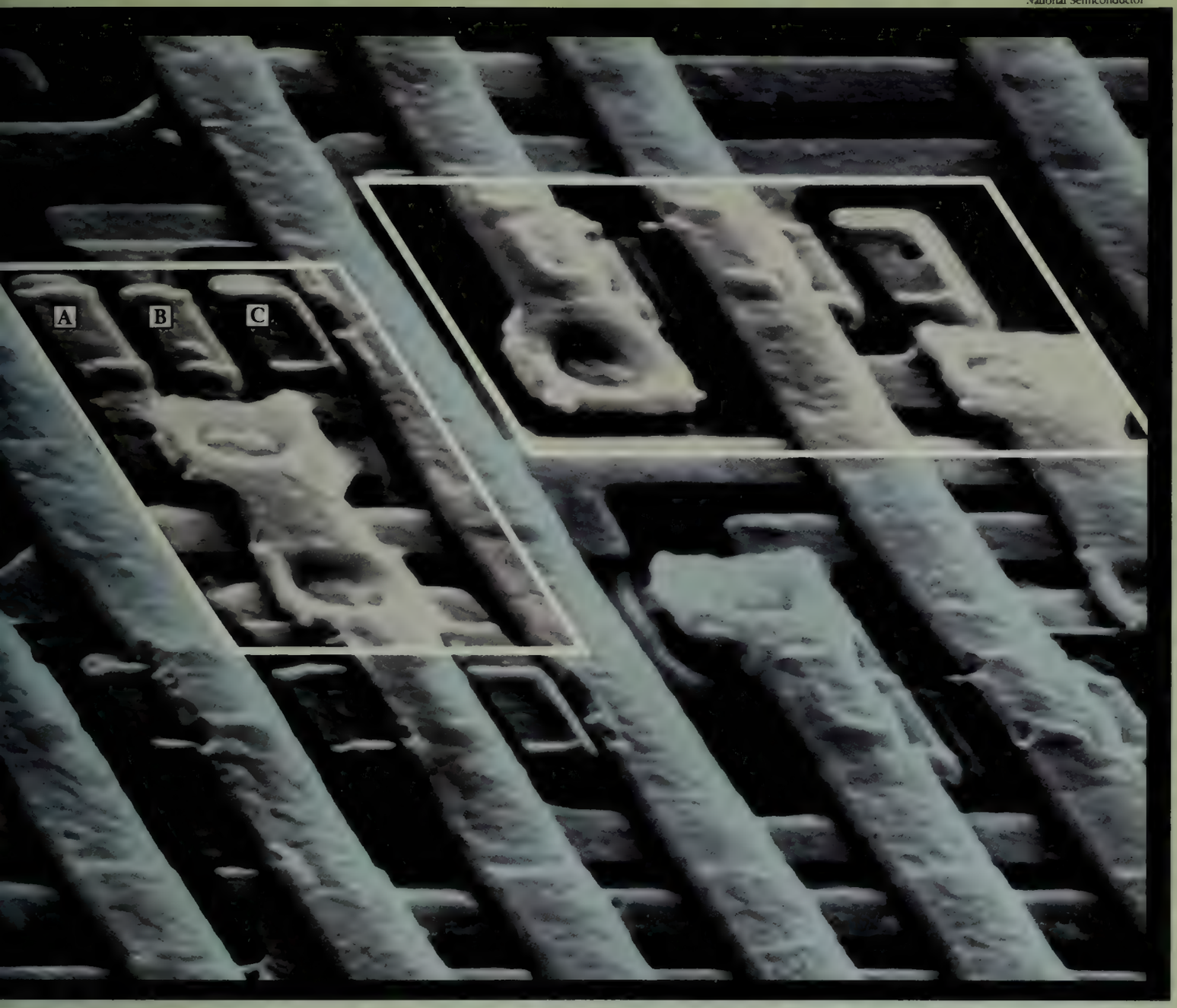
The classic design conflict in integrated circuits is that fast chips throw off a lot of heat, a serious problem on a tiny sliver of silicon. But recent advances in a style of circuit design called emitter-coupled logic offer the promise of high speed at reduced heat output. That will help workstations enjoy chip speeds hitherto reserved for mainframes with large cooling systems.

This scanning electron microscope photograph of an ECL chip from National Semiconductor shows two transistors inside the highlighted rectangles. (The long ridges running at a diagonal across the photo are the overhead power lines for the chip.) The transistors are 5 microns wide, about one-tenth the width of a hair. These can switch on or off in trillionths of a second.

In the transistor at left, the base (B) controls the flow of electrons from the emitter (A) toward the collector (C). There are lots of ways to hook the transistors together; ECL is distinguished by the fact that several are connected emitter to emitter.

On this part of the chip, five transistors are connected to form an ECL "gate," which handles one logical step. That might be, for instance, sending along a 1 output if either of two inputs is 1. Each gate may receive input from several other gates, and in turn the gate's output may act as input for several more gates.

National Semiconductor



getaway is really important to you, you keep the car idling while you rob the bank.

How fast is fast? Generally, a transistor on idle can switch from 0 to 1 in as little as 300 picoseconds, a picosecond being a trillionth of a second. That compares with 750 picoseconds for a CMOS transistor.

Nice, but what about overheating? Engineers at BIT and at some of its competitors have been able to cram more and more functions on a single chip without increasing the power ECL chips burn up. One of BIT's chips contains 40,000 gates, versus 5,000 a few years ago—but uses the same amount of power. The 12 watts dissipated by BIT's chip is no more than a refrigerator light bulb's, but it is still three times higher than that dumped by a CMOS chip. New packaging has also reduced ECL's cost by some 25%. Deals like the one BIT struck with Sun open the possibility that ECL chips could end up in high-end workstations where not only speed but money is an issue.

What if the speed of bipolar ECL circuitry and the low power needs of CMOS could be combined on the same chip? Engineers have pursued that scheme for some 20 years. The answer came first from Japan's Hitachi in 1985. Today Hitachi supplies graphic controllers, high-speed memories and gate arrays (all-purpose logic circuits) in the hybrid style, called BICMOS. But an upstart is prepared to give Hitachi a run for its money. Cupertino, Calif.-based Saratoga Semiconductor, founded in 1985 by a trio of engineers from Amdahl Corp., makes high-speed memories in BICMOS. Saratoga's sales hit $10 million last year.

Another startup, Gazelle Microcircuits in Santa Clara, Calif., is settling into a third niche in the business of trading off speed against heat and money. Gallium arsenide, a little-used alternative to silicon as the medium for integrated circuits, delivers lightning speeds with little heat buildup, but only at a high cost (FORBES, *Jan. 11, 1988*). Cray can afford this stuff for its multimillion-dollar supercomputers. But designers of lesser machines have difficulty using gallium arsenide because it is hard to connect chips made with this semiconductor to cheaper silicon chips. Gazelle's objective: designer-friendly gallium arsenide chips that are directly connected to silicon chips. The more expensive Gazelle chips will be used for a small portion of memory (called the cache memory) that feeds the central processor and has to run twice as fast as that processor.

In the microchip battle with Japan, America's strength has long been in its entrepreneurial startups. In the case of fast chips, history seems to be repeating itself.

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Commentary by Esther Dyson

REPAIRMAN IN A BOX

Soon, experts said, expert systems will use artificial intelligence techniques to diagnose failures in equipment: cars, electronic gear, factory machines, computers. It's happening, but slowly. Campbell Soup's "Aldo" system is perhaps the most visible example. Named after retired soup-cooker supervisor Aldo Cimino, it diagnoses problems in Campbell's seven-story-high vats that sterilize and cook its "Mmm, mmm—good!" soups.

Trouble is, each model of each kind of equipment needs a specially tailored expert system, and expert systems just aren't that easy to build. Claims that they require no programming must be taken with a grain of salt. True, with just a few rules of thumb (tens or hundreds) and good information about symptoms, they can sometimes diagnose a mechanical illness—a faulty carburetor adjustment, say, or a bad circuit board. But those rules of thumb may work only for one kind of car engine or one model of telephone switch, and may miss unusual problems. To be really valuable, these programs need to be easier to build for multiple models of products and less dependent on the vagaries of an "expert's" experience.

Today's crop of expert repair systems uses sets of empirical rules that may or may not have a basis in a fundamental understanding of the piece of equipment that needs repair. But a number of people have a more ambitious goal. They are developing computer programs that reason from "first principles" (a term used in this context by Professor Randall Davis of MIT) to run diagnostic systems based on models rather than rules of thumb.

You know how much better a subordinate performs if he understands what he's doing than if he's blindly following orders. Why not take the same approach to software? Have the computer program use not repair rules but the wiring connections or carburetor designs that lie behind those rules.

Esther Dyson is editor and publisher of the newsletter Release 1.0

First-principles-based expert systems are powerful, but they still need humans. Using a development tool, a user builds a model of the equipment to repair. Incorporating that model and the builder's instructions for testing and the like, the software constitutes an expert system that knows where to look and how to test for flaws.

To be sure, the software doesn't really understand what the equipment does or why it works, but it understands the system's structure, ensuring that its sequence of tests for detection of faults is complete—capable of validation and logically consistent as long as the model is accurate. Maybe your repairman never checks the power supply on the PBX because he's never seen one go bad. But he should check it. These systems make sure that every part is under suspicion.

Moreover, if you use a model rather than superficial rules, you can easily extend it to encompass new brands of similar equipment. In fact, since the expert system is based on the design of the product rather than a maintenance person's expertise, it can be built along with the product (or changed as the product is updated) without waiting for technicians to gain experience with the equipment and its failures. (Experience is harder and harder to come by these days as product cycles get shorter and technicians' salaries get higher.)

Adopting this strategy is a little startup company advised by Professor Davis, AI Squared of North Chelmsford, Mass. Its five employees used to be field-service technicians or research and development people at Wang Laboratories. AI's development system costs $10,000 and runs on a souped-up personal computer. The development system—a large computer program taking two megabytes of disk space—incorporates the builder's model to become a maintenance program for each product that a manufacturer or service company deals with.

AI Squared's first customer (and minority equity investor), Medical Systems Support Inc. of Dallas, services complex medical equipment such as CAT scanners. So far Medical Systems has used AI Squared's product to build a program for one model of scanner from General Electric. The diagnosis program runs through 250 possible tests to find any of 75 possible failing components.

Medical Systems intends to install this program on a personal computer at each hospital where it maintains GE scanners, or on a portable computer along with each mobile, truck-based scanner.

These scanners cost $500,000 to $2 million, and every minute of downtime hurts. Experience so far shows that average time to determine the cause of failure is 20 to 30 minutes, versus an unpredictable amount of time, maybe hours (of a more skilled technician's time) previously. Moreover, Medical Systems President Ron Garrison hopes, in the future, a hospital employee may be able to run the program. The program may ask him, for example, "Please measure power-supply voltage between test point 1 and test point 2," referring to a diagram of the equipment displayed on the screen.

Following the computer's instructions, the hospital employee may replace a bad circuit board, cable or relay. Later, Medical Systems will pick up the faulty part and repair it at its own facilities, with specialized technicians using traditional test equipment.

Medical Systems' program used a model and instructions from its experts to create a valid diagnosis program. It could have built a traditional rule-based system, but it would have had less confidence that all possible failures would be considered, and that Medical Systems could easily modify the system for the next model of scanner. ■

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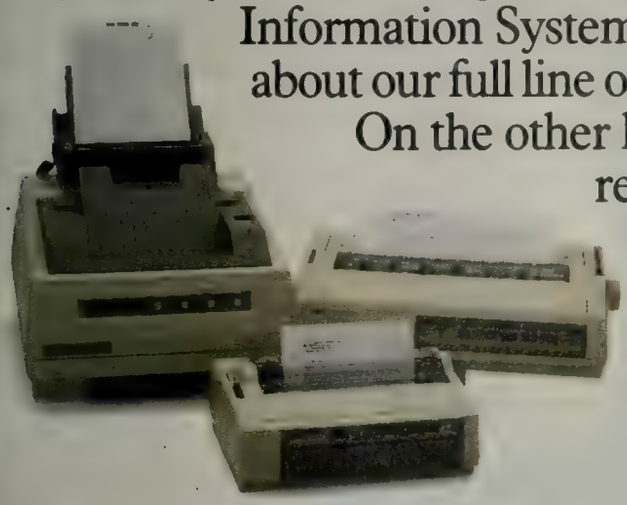

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Marketing

Edited by Jeffrey A. Trachtenberg

Used to be you just built houses and sold them. Now you market them like any other consumer product.

"Hit the prospect at every emotional level"

By Ruth Simon

CHECK OUT the Crescent, a $156,000, two-bedroom home in Lakewood, N.J. done up in sophisticated black and grays. The faux granite dining room table is set for dinner for four; champagne and caviar wait on the kitchen counter. In the master bedroom, a silver tray holds two glasses and a second bottle of champagne; a dressing gown hangs in the closet and a wooden valet is draped with a black tuxedo. The decorator cheerfully admits that all this was inspired by the James Bond movie *Diamonds Are Forever*.

The Crescent is one of eight models decorated by Color Design Art of Pacific Palisades, Calif. for the Kaplan Organization, an Edison, N.J. developer. The Crescent's audience: affluent, semiretired New Yorkers. The *Diamonds Are Forever* theme is meant to suggest that buyers can still have drama, fun and sparkle in their lives—even if they live in New Jersey.

In the 1950s and 1960s, most builders paid little attention to furnishing their model homes. A rug, a couch and a cocktail table, maybe, just a few things to give buyers some idea of what they could do with their new digs. But now the marketing is getting smarter. Designers take the builder's demographics and market research, shop the competition and develop a floor plan, layout and furnishings designed to attract the right customers.

It's a little like using a lot of sizzle to cover up the poor quality of the steak. At a time when few builders can brag about the quality of their projects' construction, real estate agents find that sales can turn on more subtle questions.

The techniques aren't cheap. Builders may pay decorating fees that equal 20% to 30% of a home's selling price. This could easily mean $300,000 to decorate four high-end models, each designed to appeal to a different audience. "If we've got five or six models and we only decorate three of them, those three will be the bestselling units," says Craig Johnson, president of Pulte Home Corp. of Southern California, a leading developer.

Today the average U.S. home buyer sees as many as a dozen homes before making a selection. Like a good advertising campaign, a well-executed model makes its subject stand out from the competition. In a business where there aren't that many basic differences in the product, the furnishings can add a touch of glamour. Furnished models also look larger.

Colors are chosen to appeal to the target audience. Homes for first-time buyers are decorated with bold, primary hues, while units designed to attract older customers with grown children get pastels that flatter older skins and are easier on the eyes. Likewise with furniture. If a model is meant to sell to older couples with no kids at home, it might include antiques, but if the target is young families, the living room may include sturdier but less expensive furniture, and a bedroom might have wallpaper with circus characters.

Most decorators want to be involved in a project before ground is broken. Gene Dreyfus, a partner in the Childs/Dreyfus Group in Chicago, says his firm often reviews preliminary drawings before a hammer hits a nail. At Cobblefield, a development of luxury homes costing $560,000 and up in White Plains, N.Y., he took dead space above the garage and transformed it into a private exercise room, separated from the master bedroom by a bookcase with a swinging panel. To date, nearly two-thirds have been sold. With Chestnut Hill at Essex Park, on Staten Island, Childs/Drey-

Glen Allison

Model den, Montage, Mission Viejo, Calif
In a sports-minded community, a baseball motif.

Dan Forer

A bedroom in the Cobblefield project, White Plains, N.Y.
Behind the swinging bookcase . . . an exercise room.

fus shifted walls to make a powder room and second bedroom.

Some decorators even create fictional characters to inspire the details that give bare space a lived-in look with plenty of personality. "We write a script just like for a movie," says Beverly Trupp, president of Color Design Art.

For the Montage development in Mission Viejo, Calif., Trupp created Ron, an investment counselor and former minor league baseball player, and his wife Lisa, an art instructor at a local college. They have two young children and a four-bedroom home that sells for $380,000.

Ron's days with the "Mission Viejo Mets" inspired his den. On one wall hangs an old baseball uniform, freshly cleaned and framed. Trophies and baseball bats clutter the shelves and the valet is a wooden bat boy. The reason? Mission Viejo is a family-and-sports-minded community.

One designer sprays Joy cologne throughout his most expensive units. Others use cinnamon or other scents to create a warm, homey feel. "The very best merchandisers try to hit the prospect at every emotional level," says Todd Zimmerman, a Clifton, N.J. consultant.

Pulte Homes' Johnson says he knows his models are working when customers return. "If at the end of the day they can remember the house with the little girl's room that had the cute built-in cabinet, that's when the dollars come back to you," he says. "If the kids remember it, you've really got it. If they feel 'I can move in here today,' that's the real home run." ■

Hypermarkets—mammoth, sprawling discounters that sell everything from bologna to baby carriages—are catching on in many parts of the country. Not yet in the Northeast, where France's Carrefour SA ignored basic marketing.

Cherchez la store

By Diana Fong

In 1962 Marcel Fournier and Denis and Jacques Defforey attended a retailing conference in Dayton, Ohio. The three Frenchmen got excited about American supermarkets and discount stores. They returned to France and created a new retailing concept—a vast store offering food and general merchandise under one roof, with prices so low that customers drove for miles just to shop there. In France, a nation of small shopkeepers, these spacious, discount hypermarkets became an instant hit. Carrefour SA earned $127 million on $9 billion in sales last year, operating 115 of these mammoth stores in France, Spain, Brazil and Argentina.

Ed Hille/Matrix

The store's exterior
Betting bigger is better.

The Frenchmen figured that since they'd gotten their original inspiration in America, their hypermarket would be a natural in this country. Carrefour opened its first U.S. hypermarket this past February in northeast Philadelphia. And though it is the only one of its kind in that part of the country, sales at the store have been disappointingly sluggish and profits nonexistent. Carrefour is learning the hard way that what makes good marketing sense in Europe and Latin America doesn't necessarily translate in the U.S.

The Philadelphia store is a brightly lit behemoth that covers 170,000 square feet of retail space, about the area of three football fields. Inside are more than 40,000 products priced at deep discounts. Customers can load their oversize carts with compact discs, tennis balls, a VCR, pajamas and fresh-baked French bread all in one shopping trip. Friendly sales clerks roller-skate down aisles that measure 12 feet across. In a hurry? The 61 checkout counters are designed to cut waiting time.

The customers say they like what

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Your average Joe.

Photographs by Ed Hille/Matrix

Inside the Carrefour hypermarket
Sales clerks on roller skates, 12-foot-wide aisles, but too few shoppers.

they see. John Kern, an executive with Unisys, recently drove 175 miles with his family from Herndon, Va. and spent $750, mostly on groceries. "There's enough of a savings that makes the trip, gasoline and tolls worthwhile," he says. "Overall, we save 20% to 30%. We bought a videogame for $100 that would normally cost $140, sirloin for $2.49 a pound that's $6 a pound plus sales tax in Virginia, a compact disc for $9.99 that costs $12.99 at discount audio stores."

So, why no profits? Because too few shoppers even know the store is there. Carrefour invested $5 million in equipment, hiring and training and other costs, but almost nothing on promoting the store when it opened. A major blunder. Quiet store openings are customary in France, not here. "We wanted to spread the hypermarket concept slowly, by word of mouth," says Carrefour U.S.A. President Girard de Ganay.

Compare Carrefour's approach to that of Hypermart U.S.A., a division of Wal-Mart. Hypermart U.S.A.'s three superstores in Texas and Kansas are so busy that shoppers complain about overcrowding. A fourth will open in Kansas City, Kans. this year.

But when Wal-Mart opens a new hypermarket, it makes sure shoppers for miles around know about it, through advertising for several weeks in local newspapers, on TV and with mailbox stuffers. Other hypermarket operators include Auchan, another French retailer, which opened a store in Houston this past October, also amidst heavy promotion.

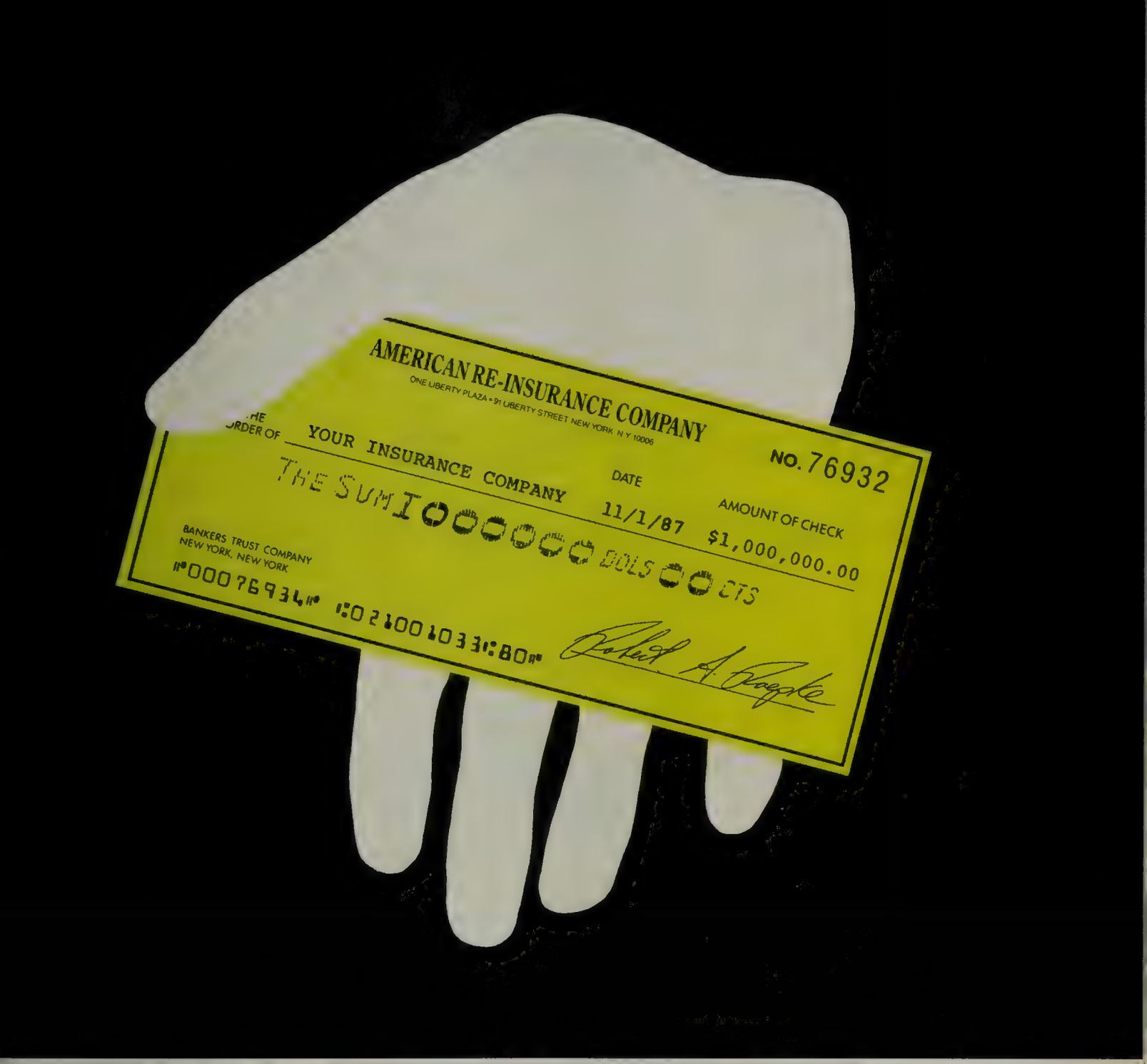
Indeed, shopper Kern heard about the store from a friend of his wife, but with little advertising, the word is spreading too slowly. Equally astonishing, those motorists unfamiliar with the area have a terrible time finding the giant store because the roadside signs are so poor. Americans, besieged with blandishments to buy and replete with places to spend their money, need coaxing. "In Europe zoning restrictions stifle competition; here, they misjudged the intensity of the competitive environment," says Chicago-based retailing consultant Willard Bishop. "The French attitude was—when customers come in here, they'll see for themselves how beautiful the prices are," says David McCue, whose McCue Corp. in Boston helped design the fixtures in the store. "But it's not enough to put up a sign saying a pound of apples costs 49 cents, as it is in Europe. In America you've got to shout, 'Hey, 49 cents is an unbelievably fantastic, smashing, fireworks deal,' in big bold letters."

Carrefour is learning. This past August the company hired International Marketing Systems of Philadelphia to spread the Carrefour name. International Marketing quickly organized a summer festival tied to the Olympics—gymnast Kurt Thomas performed, as did a team of skydivers—in the store's parking lot around Labor Day weekend.

Carrefour has also started to run weekly food advertisements in the *Philadelphia Inquirer* and some spots on local radio stations.

The French have also reorganized and partially redecorated the stores. Packaged bread is now in the gourmet bakery section rather than next to laundry detergent. Carrefour has started promoting its prices with bright pink signs in the store. Americans are accustomed to bright colors rather than pastels in their discount stores, so Carrefour has changed the color scheme in its food section from subdued turquoise to bright yellow.

One-stop shopping is a powerful marketing tool these days. So are super-low prices. With a little more learning about the local market, Carrefour could still have a hit on its hands. ■



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Personal Affairs

Edited by William G. Flanagan

Your home computer needn't be used simply for word processing and spreadsheet routines. It can link you to the world—at about the cost of your phone bill.

Let your keyboard do the walking

By David Churbuck

THERE WAS A TIME when only wireheads used personal computers for telecomputing. They usually accomplished their witchcraft of tapping faraway data sources in the wee hours, when phone line rates are lowest.

But now the on-line information industry is making a major effort to lure even the nearly computer illiterate into the fold. Prices for accessing databanks are dropping fast, software is friendlier, and the wares offered have been expanded to include everything from stock and airline information to shopping and sex advice.

Patrick McDonnell

The reason? Look at the numbers. It's estimated there are 24 million PCs now sitting in bedrooms and living rooms in this country. In four years, that number will reach 40 million. Talk about a market.

Now, all it takes to join the fold is an investment of about $200 for a modem and some communications software. You can then use your computer to navigate your way through a wealth of information stored on over 4,000 databases faster than a trip to the local library. The cost per year can be far less than a typical residential phone bill.

What's available once you're on-line? There are roughly three classes of service. The first, and most expensive, comprises the specialized mainframe-based databases. They contain historical information on specific subjects: technical documents, patents, legal information, etc.

The second category includes the so-called public services: electronic hubs that connect local subscribers to a national network of databases, ranging from real-time stock quotes and the *Official Airline Guide* to interactive forums about specific computers, professions or issues. The third class of on-line service, and sometimes the least expensive, embraces regional bulletin boards—small, almost underground meeting places where electronic mail is exchanged and free software is stored.

The public services arena is where most of the action is these days. The three leading players in terms of number of subscribers and options are Dow Jones News Retrieval, The Source and CompuServe. Newest kid on the block, and not yet available nationally, is Prodigy, a partnership between Sears and IBM.

Plugging in is simple. Using a subscription kit available either at a computer store or directly from the suppliers, you dial your personal computer modem into a local number, which in turn connects your computer to a national data network. From there, subscribing is a matter of signing up, receiving a personal password and arranging billing either automatically on your credit card or through a monthly mailed statement.

Fees are based on the time you spend connected to the service, the type of communications network you use to make the connection, and what types of information you want. Retrieving delayed stock quotes, for instance, is much cheaper than real-time prices.

Access to some databases is free; others—including the specialized libraries of technical information and securities research—are billed according to the number of records you retrieve.

Which service to buy? It depends on your needs. But there is a lot of overlap. Investors, for example, must have timely market information. So, many services offer subscribers the ability to manage a portfolio on-line, to update prices automatically and to retrieve research reports and historical performance data from several sources. Some services, including The Source, CompuServe and Charles Schwab's Equalizer, even allow you to execute trades.

On Dow Jones and CompuServe, business travelers can book their own flights through the *Official Airline Guide*, check weather conditions across the country and even take the service with them on the road—provided they own laptop computers.

The newest service on the market—and the least expensive—is Prodigy. It is able to reduce its fees by selling advertising space—wasn't it inevitable?—along the bottom of the user's computer screen.

Prodigy has another wrinkle: Subscribers can automate the service to fit their own needs by creating a personal "path" to access specific information in sequence.

Geoffrey Moore, director of market programs and services for Prodigy, explains: "From 450 features, you can select 12 items you can go through automatically every day. I may want my electronic mail first, the weather second, then news, then stocks. My wife may want shopping first, followed by soap opera news, then her horoscope."

Even Dialog Information Services, traditionally used by professional researchers, is aiming itself at consumers by replacing its difficult search sequences with simplified menus. It is also providing copies of *Consumer Reports, Consumer Drug Information Fulltext,* wire service news and financial databases aimed at the individual investor.

The underground, hacker side of on-line databases can be found in a network of small bulletin board systems scattered around the country. Some are free-form systems run out of the system operator's (Sysops) home. Others are run by organizations such as the Boston Computer Society as a place to post announcements and offer technical advice.

Bulletin boards or similar systems are usually topical in content, their callers bound together by some shared interest. Some are aimed at software programmers, ham radio operators, amateur genealogists or owners of a specific brand of computer.

Here is a guide to the services aimed at at-home users. Check with each for exactly which databases are offered.

The Source (800-336-3366). Subscribers pay a one-time sign-up fee of $29.95 and are charged a monthly minimum of $10, which is credited toward use. Connect charges are 18 cents per minute of non-prime-time use (6 p.m. to 7 a.m., Monday through Friday, weekends and holidays) and 43 cents prime time (7 a.m. to 6 p.m., Monday through Friday).

CompuServe Information Services (800-848-8199). Sign-up fee is $39.95. Connect charges are $12.50 per hour.

Dow Jones News Retrieval (800-522-3567; in New Jersey, 609-520-8349). A personal subscription includes one password, a user guide, five free hours of use and the waiver of an annual $12 service fee, all for $29.95. A business subscription includes multiple passwords, user guide, eight free hours of use and the waiver of the annual service charge for $49.95. Connect charges range from $1.39 to $2.75 per minute in prime time (6 a.m. to 6 p.m., EST) to 29 cents to $1.75 in off-hours (6:01 p.m. to 5:59 a.m., EST).

Prodigy Services (800-822-6922). Available in Atlanta and most of Connecticut and California. Prodigy expects to be national by the early 1990s. To subscribe, users must purchase a $49.95 subscription kit, which comes with communications software, instructions and three months of free service. For $149.95, subscribers get the basic kit plus a modem—if they don't have one already. The service costs a flat fee of $9.95 per month, regardless of how much time you spend on line.

He works. She works. What about the kids?

It's never been harder to find a good nanny or au pair to look after your children.

Why? Two basic reasons. First, demand far outstrips supply. In the U.S. today, 65% of mothers with children under 18 work outside the home, up from 47% in 1975.

Second, there are tough new penalties for employing illegal immigrants—a traditional source of nannies and au pairs. A Honolulu couple with a large family, for example, recently placed a want ad in the *Irish Times.* After the couple met their new au pairs at the airport, agents of the Immigration & Naturalization Service arrested the whole crowd.

Moral: Use only professional agencies to find the help you need with child care. It will cost you more than relying on word-of-mouth or placing your own want ads, and you may end up on a waiting list, but you'll avoid a lot of problems.

Because most au pairs have little or no training in caring for infants, a nanny is usually more suitable for very young children. Nannies can be located through placement agencies in most urban areas. But the quality of their training can vary wildly—down to "zilch," says Deborah Davis, president of the International Nanny Association. Ask the INA (714-622-6303) or the American Council of Nanny Schools (517-686-9417) to recommend nanny training schools and placement agencies in your area. This country now has some 100 nanny training programs. In 1983 there were just 2.

A nanny will take care of the children, do light housework and run errands. She may also have studied child care, nutrition, first aid and psychology.

Nubar Alexanian

Norwegian au pair Linda Idland
Mommy's helper, but not a substitute.

Depending on where you live, a nanny will cost from $800 to $1,600 a month, and the placement fee can range from $350 to $3,500. Some agencies allow "nanny-sharing," in which two families split a nanny's time and salary. You may also want to spend $250 or $300 to have an investigator run a background check on a prospective nanny.

If you pay a nanny directly—rather than through an agency—you must work out with her the details of insurance, medical care, tax withholding and Social Security payments.

Since there are at least five applicants for every nanny, you will have to meet standards almost as stringent as the ones you have in mind for her.

If your kids are past toddler age, an au pair may suit your purposes. Only two organizations are legally authorized by the State Department to bring au pairs to the U.S.: the American Institute for Foreign Study (203-869-9090) and the Experiment in International Living (202-628-7134).

These au pairs (95% of them are female) are all English speakers, usually students in their late teens or early 20s from

Ireland, Britain, Germany, France and Scandinavia. They contract to be au pairs for one year, and are entitled to two weeks' paid vacation. They are not servants—nor substitute nannies. Their work hours are restricted to 45 hours a week of child care, and they expect to be treated as members of the host families. They can introduce your children to a foreign language and culture but generally have little training in child care. Still, au pairs are in great demand—at least three families apply for every one available.

An au pair will cost over $8,000 a year—about $3,000 in upfront fees and $100 in pocket money each week. The au pair's flight from New York to your local airport is usually extra, and you will also have to chip in up to $300 in tuition subsidies for the au pair's course work at nearby schools.

Study the written contract spelling out the au pair's duties and your responsibilities. "It puts our au pairs in a difficult position when the parents ask them to mow the lawn," says Henry Kahn, president of AIFS.

How trustworthy are nannies or au pairs contracted through legitimate agencies? Child welfare groups and parents organizations say that it is highly unusual for nannies or au pairs to be accused of violence or dishonesty. A much more likely risk is a sheer clash of personalities. "Probably the single biggest problem is that parents have expectations that are just too high," says Terri Eurich, president of the National Academy of Nannies, Inc. in Denver. "They think hiring a nanny will solve every problem." Arguments often erupt over responsibilities, and the dissatisfied family sends back the nanny or au pair—or she asks to leave.

Although less than 5% of au pairs are sent back to Europe early, about 20% are transferred to another household. About 25% of nannies end up getting reassigned.—**Jason Zweig**

Plastic surgery

Now that consumer debt is largely nondeductible, it makes sense to prune your credit card collection. It won't be easy. The average consumer now holds eight cards, and the major credit card issuers, aware of what savvy consumers may be up to, are working hard to keep you from snipping their particular cards.

Consider the dumb luck that befell Connie Friddle, a 27-year-old Palmdale, Calif. housewife who had a balance of almost $5,000 on her Visa gold card last November, half of it a cash advance to help pay for a Toyota truck. Silly, you say, with interest rates as high as 21% on such charges? Perhaps. But when Friddle got her statement, all the charges were on the house. "I read the letter about 12 times to make sure it wasn't a joke," says Friddle.

Since October, Visa's ploy to retain and add customers has been to randomly forgive individual cardholder purchases—even whole balances. One cardholder rang up $10,000 in purchases, which were wiped clean. (The promotion ends Dec. 31.)

Comparable enhancements offered by Visa, MasterCard, American Express, Diners Club, Discover and others are not so chancy. Such free benefits as buyer protection insurance, collision-damage waiver coverage on car rentals, cash rebates of 1% on charges, and bonus frequent flyer miles are designed to counter the rising annual fees, high annual interest charges and nondeductibility of interest on the cards.

Card issuers are rolling perks out in force. Says Stephen Szekely of Payment Systems, a Tampa, Fla. research firm: "If an enhancement works for one card issuer, other issuers match it. It becomes almost mandatory."

Jean-François Allaux

What's the best way to play your credit cards right these days? Consider this strategy: Restrict yourself to three cards. Which ones?

Choose one bank card strictly on cost—the lowest annual fee and the lowest interest rate. Apply for as high a credit limit as you can get. Then transfer all your existing credit card debt to that card. Example: People's Bank in Bridgeport, Conn. offers Visa cards and MasterCards that charge only 12.5% annual interest and allow cardholders to write free checks up to their credit limits. Cardholders can thus draw on their credit line to pay off balances on their other, higher-rate cards. (John Pollock's *Credit Card Update* lists low-rate and no-annual-fee cards that are available nationwide. The bimonthly lists are available for $8 each by writing Bank Credit Card Observer, New World Decisions, 3086 Old Lincoln Highway, Kendall Park, N.J. 08824.)

Note: Conventional wisdom suggests a home equity loan would be a better way to pay down such consumer debt. But the true cost of the home equity loan (on which interest is fully deductible) can far exceed any tax advantages. There can be appraisal fees, lawyers' fees, title search fees, recording fees and, in some states, mortgage taxes connected with the home equity loan.

Choose (or keep) another card basically for the enhancements it promises—but be sure to keep your balance at zero by paying all your monthly charges on time. If you are even 2 cents in the red at the beginning of a billing period, interest starts accruing from the moment you make additional charges.

You might use your Discover Card to make major purchases and then promptly pay your bill in full when it arrives. You will still qualify for a rebate of up to 1%.

And if you want to beef up your frequent flyer account, take a gold MasterCard from, say, Marine Midland Bank in Wilmington, Del. You will automatically receive 5,000 frequent flyer bonus miles on either Continental or Eastern Air Lines. First Chicago has a bonus plan with United Air Lines; Citibank is tied in with American Airlines, etc.

Finally, keep or choose one travel and entertainment card, i.e., American Express, Diners Club, etc., on which all charges are due each billing period. These cards are just too useful, offer too many perks, and are too widely accepted to leave home without.—**Edward Giltenan**

DEWAR'S PROFILE

PETER NORTON

AGE: 45.

HOME: Santa Monica, California.

PROFESSION: Computer wizard. Chairman and CEO, Peter Norton Computing, Inc.

HOBBY: Making contributions to L.A.'s many art museums. "When life hands you a large slice of the pie, you share."

LAST BOOK READ: *Don Quixote*, Miguel de Cervantes.

LATEST ACCOMPLISHMENT: Seeing his name in lights. At the Museum of Neon Art where he's on the board of directors.

WHY I DO WHAT I DO: "As a kid, I loved those things on your coat that were supposed to keep you from losing your mittens. Who else would design a program to find information 'lost' in your computer and then build a business on it?"

QUOTE: "I can't believe my life is happening to me."

PROFILE: Quiet, committed and independent. "Not really. I'm just your classic nerd who got lucky."

HIS SCOTCH: Dewar's® "White Label" with water. "It's as much of a splash as I'll ever make."

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Sotheby's Art Market Trends

Index sectors	Nov 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years % change	Five years average annual % change
Old Master paintings	403	403	349	303	217	nil	+15.5	+33.0	+85.7	+13.2
19th-century European paintings	421	361	323	267	201	+16.6	+30.3	+57.7	+109.5	+15.9
Impressionist & Post-impressionist art	1,255	1,091	661	432	298	+15.0	+89.9	+190.5	+321.1	+33.3
Modern paintings (1900-1950)	1,138	1,090	666	429	275	+4.4	+70.9	+165.3	+313.8	+32.9
Contemporary art (1945 onward)	856	728	609	551	392	+17.6	+40.6	+55.4	+118.4	+16.9
American paintings (1800–pre-WWII)	958	958	789	687	501	nil	+21.4	+39.4	+91.2	+13.8
Continental ceramics	467	467	320	290	284	nil	+45.9	+61.0	+64.4	+10.5
Chinese ceramics	815	684	550	486	459	+19.2	+48.2	+67.7	+77.6	+12.2
English silver	388	388	381	338	219	nil	+ 1.8	+14.8	+77.2	+12.1
Continental silver	296	260	220	201	156	+13.8	+34.5	+47.3	+89.7	+13.7
American furniture	484	469	459	404	239	+ 3.2	+ 5.4	+19.8	+102.5	+15.2
French & Continental furniture	409	359	319	299	257	+13.9	+28.2	+36.8	+59.1	+ 9.7
English furniture	822	784	634	485	328	+ 4.8	+29.7	+29.7	+69.5	+11.1
Aggregate index*	727	661	482	376	278	+10.0	+50.8	+93.4	+161.5	+21.2

Basis: 1975 = 100 [$]. ©Sotheby's 1988

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Monthly highlights

In the span of a single week in November Sotheby's and Christie's between them sold $430 million of artwork—an unprecedented amount in so short a time. Almost 40% of the total came from the sale of three single-owner collections: the Goetz collection of Impressionist and Modern art at $85 million, a selection of 12 paintings from the Ganz collection of Modern and Contemporary art at $48 million and Contemporary art from the Tremaine collection at $26 million. Later in the month, auction activity moved to London, where Impressionist and Contemporary art sales realized $246 million.

Among the most significant prices in New York, $17.05 million for Jasper Johns' *False Start* established a record for a living artist, while $24.75 million for Picasso's *Maternité* established a record for any 20th-century painting. The latter record was short-lived—just 14 days later in London, another work by Picasso, *Acrobate et jeune arlequin*, reached $38 million.

This significantly higher price level is evident not only in the Impressionist and Contemporary fields but also in other sectors, although in a less conspicuous way. For example, some of the finest pieces of Continental silver on offer in Geneva sold for new highs in this sector, but were still extremely modest compared with the dollars spent in the Impressionist and Modern fields.

Roy Lichtenstein's "I Can See the Whole Room . . . and There's Nobody in It"
Under the hammer: $2 million.

Index highlights

Most of the sectors covered by the Index have shown considerable gains. The high figure for Contemporary art reflects the success of two major collections and the demand for the best-quality works, while the strong performance of 19th-century European paintings also demonstrates the strong interest among an increasing number of wealthy, sophisticated collectors.

The success of a major series of sales in Hong Kong is responsible for the marked improvement in Chinese ceramics. A Qing porcelain imperial yellow-ground landscape bowl achieved just over $1 million.

Strong European bidding, aided by favorable exchange rates, and an exceptionally fine selection of material accounted for gains in Continental silver and French and Continental furniture. The British Rail Pension fund was a major seller, realizing substantial profits in an exceptionally strong market.

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For complete details, call your travel agent or KLM, the airline of the seasoned (and well-rested) traveler.

The Reliable Airline **KLM**
Royal Dutch Airlines

Faces
Behind the Figures

Edited by Robert T. Grieves

Cyclical calm

If the economy continues strong in 1989 it will be no thanks to the housing sector, says Warren Lasko, executive vice president of the Washington, D.C.-based Mortgage Bankers Association of America. He says: "Mortgage interest rates now are around 10¾%, and I think 11¼% to 11½% is almost a certainty by March or April." Each 1% increase in mortgage rates translates into 100,000 fewer housing starts across the nation, 200,000 laid-off construction workers, and $10 billion in lost sales. Why the upward pressure on mortgage rates? Lasko takes President-elect Bush seriously about no increases in taxes and that convinces him that federal borrowing will push interest rates higher. "We are pushing toward a mild recession in the housing sector," says Lasko.

How high will mortgage rates rise? "I think 11½% is about the limit," says Lasko. "I expect an economic slowdown will prevent them from hitting 12% or 12½%."

Lasko, 48, knows both housing and Washington. He formerly worked for the GNMA and FNMA and the Department of Housing & Urban Development. He's kind of philosophical about the impending downturn in housing. "We're seeing normal business cycles at work," says Lasko. "We had some terrific years in 1984, 1985 and 1986. Now we are in a downturn."—R.T.G.

Warren Lasko of the Mortgage Bankers Association of America
"We're seeing normal business cycles at work."

Accounting nemesis

"We're just asking companies to 'fess up to the cost of their promises," says Diana J. Scott of the Financial Accounting Standards Board. The board angered much of corporate America with a proposal that would require companies to book unrecognized liabilities in their retiree health care programs. Estimates of those liabilities already range from $220 billion to $2 trillion—enough to make a huge dent in the book value of most major corporations.

Alan Goldsmith

FASB's Diana J. Scott
Recognizing the liabilities.

Critics are pressing for changes in the proposed standard. Some accountants and actuaries contend that health care costs are not reliably measurable, and thus should not be put on the books. Scott's reply is that "the liabilities exist, and we have to recognize them." Scott, 37, graduated from Ohio's Wittenberg University in 1973 with a bachelor's degree in business administration before joining Price Waterhouse. In 1986 she became a project manager at the FASB, little knowing she would soon be taking on some of the biggest companies in the country. "I knew this would be a challenging project when I took it on," Scott says. "It's certainly exceeded my expectations."—**Penelope Wang**

Cliff dodger

Arthur L. Parker literally drove his three-year-old company off a cliff back in 1921. He did so by losing control of a truck carrying his entire inventory of auto brake systems from Akron to Boston. Since then Cleveland-based Parker Hannifin Corp., the company he founded, has grown to $2.25 billion in revenue, mainly through the acquisition of some 90 capital goods companies. With 80 divisions, 200 plants and 33,000 employees, the company makes everything from O-rings for the space shuttle to automotive parts.

That heavy dependence on the capital goods sector, though, doesn't mean Parker Hannifin is vulnerable to falling off a cliff of a different sort—

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Roger Mastroianni

Paul G. Schloemer, chief executive of Parker Hannifin Corp.
"Not all our markets are on the same business cycle."

an economic slowdown, say. "Not all our markets are on the same business cycle," says Paul G. Schloemer, president and chief executive. "Government defense spending is not on the same cycle as commercial aircraft spending or the industrial sector."

Schloemer is talking about a recession strategy because, after 1½ years of robust sales in the capital goods market, he sees a slowing of economic growth after mid-1989. Although he doesn't see a recession looming, he has vivid memories of the recession of 1982-83, which caught Parker Hannifin with too much capacity. During that period, he recalls with a shudder, the firm lost $100 million in sales.

Schloemer, 60, who joined the firm in 1957 and was named chief executive officer four years ago, still thinks revenue growth through acquisition is a good idea. "We'll continue to make acquisitions," he says, "whenever we can fill a gap in our product line or bring in new technology we don't have."—**R.T.G.**

Shuttle consultancy

Detroit is moving closer to Madison Avenue. General Motors recently hired Grey Advertising's Shirley Young as its vice president for consumer market development (FORBES, *Nov. 14, 1988*).

Now Chrysler has hired a new vice president of consumer affairs. She's Laurel Cutler, director of the marketing planning department at New York's FCB/Leber Katz Partners, which has done market planning

Faces
Behind the Figures

work for Chrysler. Cutler helped clients sell More cigarettes and Prego spaghetti sauce. But unlike other marketing consultants who have jumped to client firms, Cutler will keep her job of consultant to some of the largest consumer product companies in the country.

Cutler, 62, grew up in New York City and graduated from Wellesley College in 1946. Thus she brings to the job 42 solid years in selling consumer goods. Three years ago Chrysler asked her to create a brand strategy for the 1990s.

"During the 1930s, 1940s and 1950s, car brands were so powerful," she says. "Then something happened. I think each brand tried to be all things to all people, and they lost their identity." Cutler's advice to Chrysler: "Go back to your roots, and focus those brands. They must stand for a consistent identity."

Cutler plans to continue living in Manhattan and commute to Detroit every week.—**Marygene E. Kirk**

Richard Flynn

Laurel Cutler, Chrysler's new vice president of consumer affairs
"Go back to your roots, and focus those brands."

For the 'know' to make your money grow.

FOR ALL

For the inside track on the corporate board game.

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For the financial expertise of Stuart Varney, Lou Dobbs and Bill Hartley.

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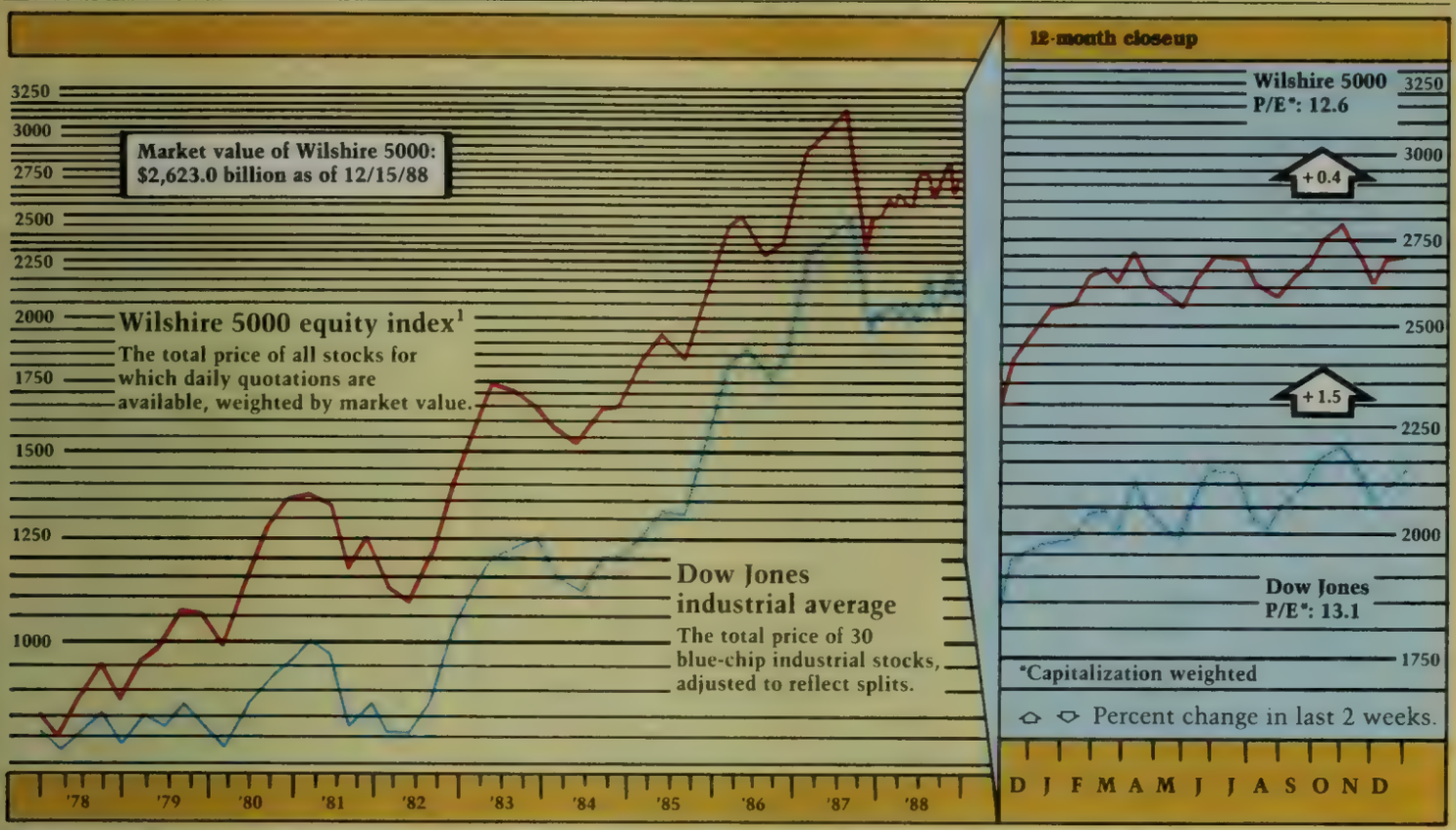
Forbes Wagon Creek Ranch

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Listen to the experts. One of the better yardsticks technical analysts look at is the ratio of short sales from the public to short sales by New York Stock Exchange specialists. When the public is shorting more than the pros, the theory goes, the market will rally (because individual investors are more often wrong than right). Does the theory work? It did in May 1988. The indicator was at 1.23, and that was the last time the Dow closed below 1950. (For the week ending Oct. 16, 1987, the ratio stood at 0.56, a relatively bearish figure for the pros. Meltdown Monday followed.) Judging by this indicator's present reading of 1.13, the outlook for stocks is bullish.

Over the last four weeks the Dow advanced 3.9% and the broad-based Wilshire index moved up 3.1%. The over-the-counter market rose only 1.5%. Since everybody is talking about the "January effect"—a January rebound in small-company stocks—it seems a good bet that small stocks won't behave that way in January 1989.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.1	3.5	3.9	3.3	3.1	1.5
in last 52 weeks	13.7	13.1	10.8	13.4	17.2	16.7

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	2.7	–0.1	4.7	0.2	3.3	1.0	0.2	4.0	1.5	1.6	2.0	0.2
in last 52 weeks	11.8	9.5	1.6	14.1	8.2	20.7	13.7	21.6	10.1	13.8	12.2	1.8

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

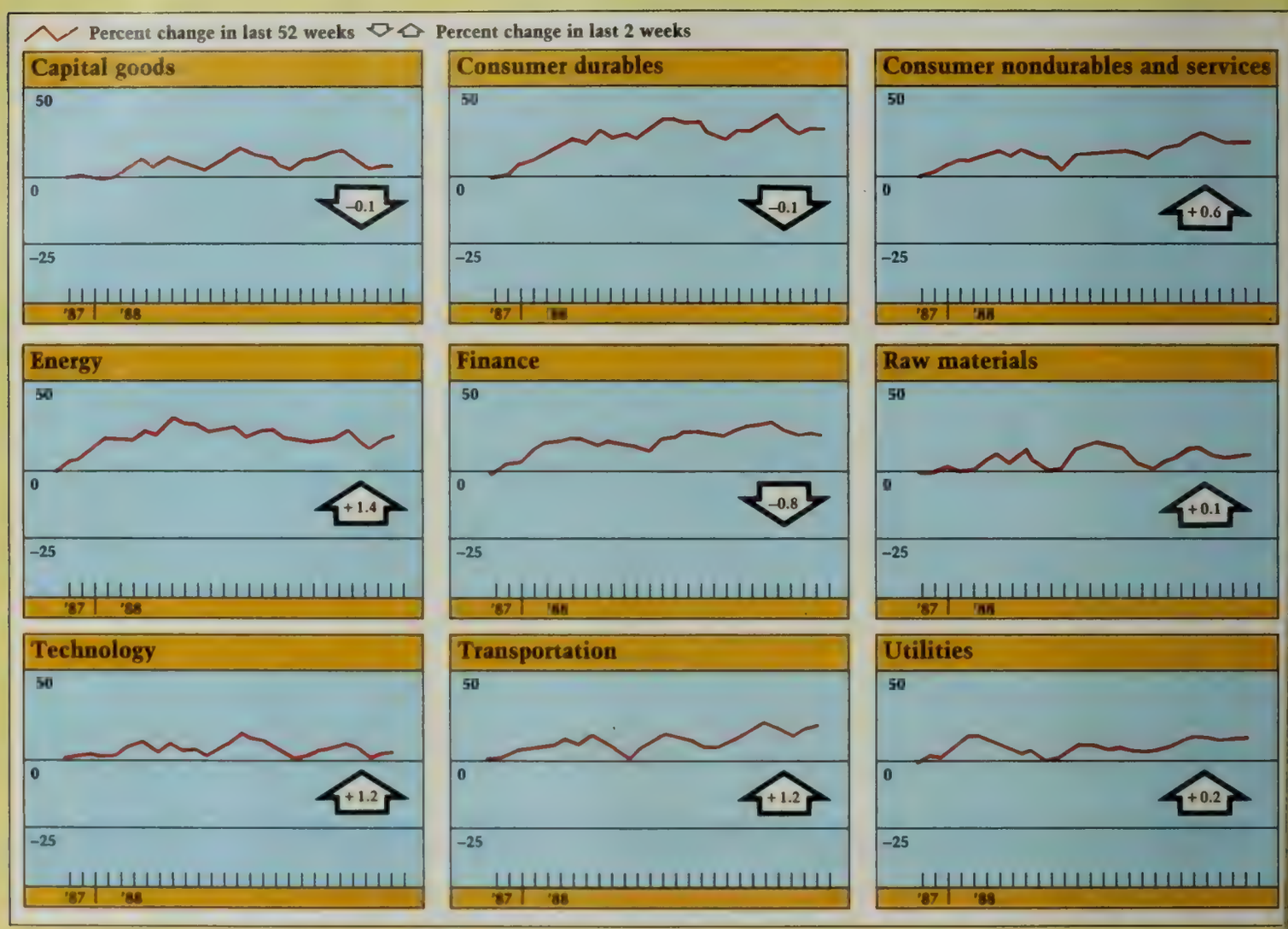
Note: All data for periods ending 12/15/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Flying under the clouds. Cheap fuel and strong earnings helped transportation stocks post a 52-week gain of 14.7%. But Texas Air has not participated in this rally, and no surprise. Losing over $100 million a quarter and swamped with long-term debt and capital lease obligations of $5 billion, the airline recently announced that all preferred dividend payments would be suspended. During the last two weeks its stock dropped 19.3%, to 11½. Less than two years ago Texas Air sold for 51½.

The market's strength over the past two weeks was largely confined to the blue chips. All nine Wilshire sectors underperformed the Dow. The best sector was energy, which advanced 1.4%. Texaco gained 7%, along with Exxon, which gained 5%.



What the Analysts Think

Falling estimates for technology. A parting look at 1988 earnings estimates shows a 1.4% decline in the forecast for technology stocks over the last four weeks. Analysts are already downgrading their 1989 estimates for Intel, Control Data and National Semiconductor, and have estimated earnings reductions of more than 18%. This sector's P/E is currently 11.8, which gives it an earnings yield of 8.5%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.27	11.8
1988 estimates	3.60	10.7
1989 estimates	3.98	9.7

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Consumer durables	$5.11	11.4	0.44%	1.10%
2	Utilities	2.40	10.4	0.26	0.54
3	Energy	3.35	11.5	0.17	0.20
4	Raw materials	3.24	9.1	0.12	–0.06
5	Capital goods	2.85	14.5	–0.13	–0.09
6	Transportation	2.26	12.4	–0.27	–0.69
7	Consumer nondurables	2.48	14.1	–0.27	–0.45
8	Finance	3.23	8.8	–0.35	–0.72
9	Technology	3.02	11.8	–0.80	–1.41

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 12/15/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

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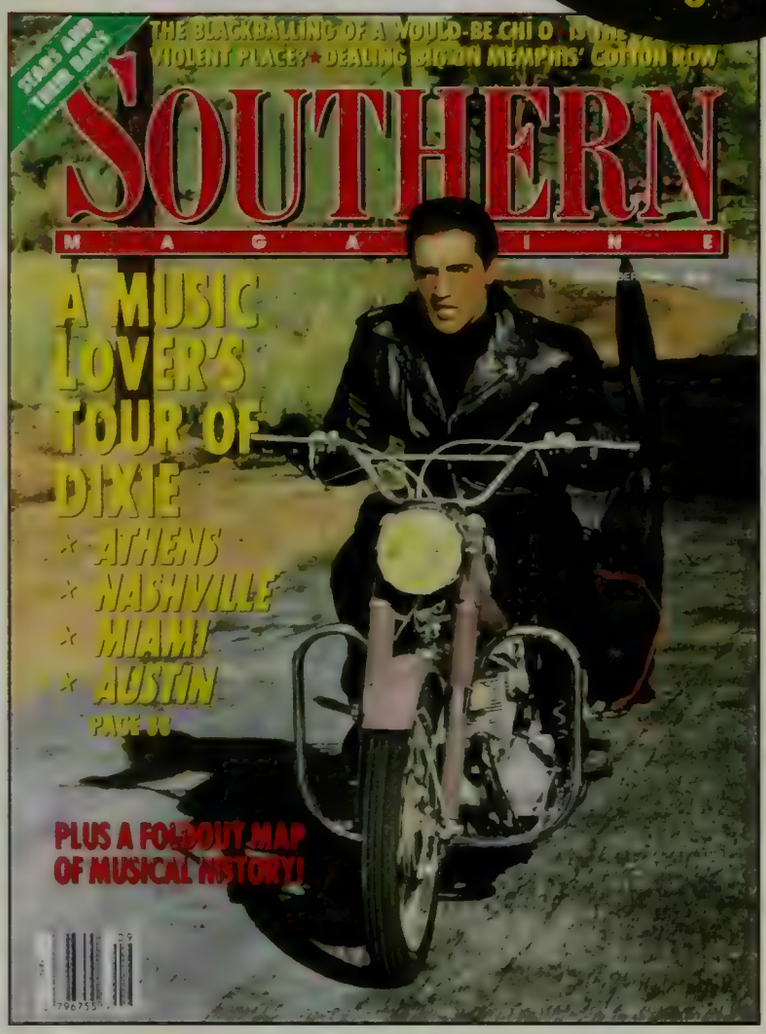

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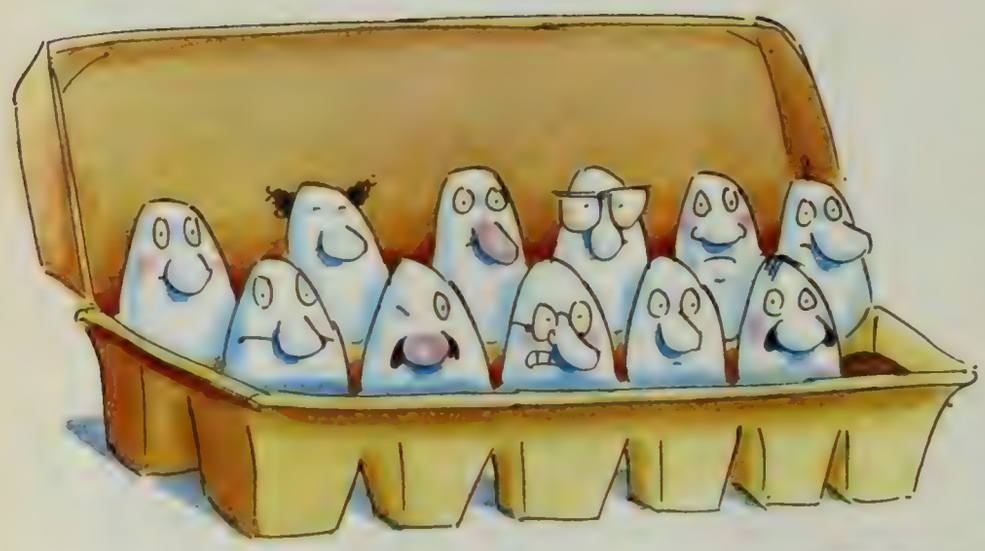
89AFOR

Every year FORBES asks analysts to select their favorite stock for the year ahead. Last year's favorites did handsomely. What do the bold bulls like for 1989?

Risk rewarded



Patrick McDonnell

By Steven Ramos

WITH THE STOCK MARKET in ruins and investors in shock, it took nerve to recommend a stock in November 1987. Ten analysts who did just that for our annual if-you-could-love-only-one contest did well. Their nerve was well rewarded. Their picks went up an average 41% over the next 12 months, against a 19% increase in the Wilshire index. The stocks, the analysts and the results are shown in the small table, opposite.

In a supplement to the bull race, we had five bears recommend five short-sell candidates. The hate-only-one group did not shine. Instead of falling, the stocks went up 11%—up less than the average but enough to cost a short-seller money.

Back to the bold bulls. The picker of last year's winner, American Cellular Network, was Frederick Moran, president of Moran Asset Management in Greenwich, Conn. American Cellular Network gained 122%. We'd be less than human if we didn't ask what stock Moran likes best for 1989. His pick: another moneylosing phone company, Associated Communications (o-t-c, 30). "They have two major assets: five cellular phone systems and stock in Tele-Communications [the cable operator]," says Moran, who adds that these assets are worth at least $77 a share.

Janus Capital President Thomas Bailey came in second among the bulls, with Chambers Development, up 70%. 1989? "Like they say at a Montana square dance, 'You got to dance with the girl you brung,' " says Bailey. He's staying with Chambers Development (AMEX, 18⅝), a landfill management company capitalizing on the country's solid-waste panic.

For 1989 Elliott Schlang, editor of the *Great Lakes Review* in Cleveland, Ohio, selects A. Schulman (o-t-c, 38¾), which is the largest compounder of plastic resins not affiliated with a full-line chemical company. Schulman does 60% of its business overseas but is not, Schlang says, going to fall apart if the dollar strengthens. "In 1982, with the economy sinking and the dollar climbing, their earnings should have been clobbered. Instead they reached a record level," he says.

David Elias, an investment adviser in Buffalo, N.Y. likes sneaker importer Reebok International, Ltd. (NYSE, 10½), selling at five times estimated 1989 cash flow.

Alliance Capital's John Stewart in New York is going with Harcourt Brace Jovanovich (NYSE, 8½), a publisher, insurer and amusement park operator that leveraged up its balance sheet in mid-1987 in order to pay a special $40 dividend. Interest payments are keeping it in the red, but Stewart expects positive earnings by 1990. Meanwhile, he says, the stock is at a steep discount to a liquidation value he estimates at $28.

If you did poorly in our love-only-one contest, you got dropped from our panel. The five stock pickers who did the worst were replaced with new contestants. Binkley Shorts, a newcomer, is a portfolio manager for the OTC Securities Fund in Fort Washington, Pa. Shorts selects Oshkosh Truck 'B' (o-t-c, 10¾), the specialized heavy-duty truck maker. "I like it because everyone hates it." He notes the stock sells at only four times projected 1989 earnings of $2.35.

Brenda Lee Landry, a Morgan Stanley analyst, likes Procter & Gamble (NYSE, 81⅞). "It's a company that is going to become much more aggressive worldwide," she says. P&G sells at a discount to the market's P/E ratio and yields more than the S&P 400.

Van Brady, partner in Presidio Management in San Francisco, picks Cadence Design Systems (o-t-c, 8), an estimated $64 million (sales) writer of computer-aided engineering software. "It'll probably grow at 30% to 35% a year, so that several years down the road, you're gonna see a $200 million company," says Brady.

Kay Norwood, an analyst for Interstate/Johnson Lane in Charlotte, N.C., favors Bruno's (o-t-c, 10), a super-

Dauntless dozen

Last year's five best contestants return for another challenge in our annual stock-picking contest. The lineup has been expanded to 12 with the addition of two experts whose hopes are riding on foreign stocks. The other analysts' choices range from giant Procter & Gamble to little software firm Cadence Design.

Name	Affiliation	Stock	Business	Recent price	Latest EPS	12 mos P/E
Thomas Bailey	Janus Capital	Chambers Development	operates landfills	18⅝	$0.75	24.8
Van Brady	Persidio Partners	Cadence Design Systems	computer-aided engineer software	8	0.44	18.2
David Elias	David Elias Inc	Reebok International	athletic footwear	10½	1.44	7.3
Richard Holbrook	Bailard Biehl & Kaiser	Ito Yokado Ltd ADR	retail	138¼	2.82*	49.0
Phillip Lamoreaux	Lamoreaux Partners	Silicon Graphics	computer workstations	15¼	0.71	21.5
Brenda Lee Landry	Morgan Stanley	Procter & Gamble	household, personal care, food prods	81⅞	6.23	13.1
Frederick Moran	Moran Asset Management	Associated Communications	cellular phone service	30	–0.58	NM
Kay Norwood	Interstate/Johnson Lane	Bruno's	supermarkets	10	0.53	18.9
Elliott Schlang	Great Lakes Review	A Schulman	plastics and resins	38¾	3.09	12.5
Binkley Shorts	OTC Securities Fund	Oshkosh Truck 'B'	heavy-duty trucks	10¾	1.73	6.2
John Stewart	Alliance Capital	Harcourt Brace Jovanovich	publishing	8½	0.82	10.4
Mark Yim	Baring Securities	Daiei	retail	17⅝	0.17*	NM

*Figures are unconsolidated. NM: Not meaningful. Closing prices: Nov. 30, 1988.

market chain based in Alabama. Bruno's, whose earnings per share have grown at a 17.4% rate over the past five years, acquired Piggly Wiggly Southern, a troubled supermarket retailer, last April. The acquisition almost doubled Bruno's store count.

Phillip Lamoreaux, a general partner of Lamoreaux Partners in San Francisco, thinks that technology stocks will get some attention in 1989. He is going with Silicon Graphics (o-t-c, 15¼) (FORBES, *Oct. 17, 1988*). "It's the only company doing true three-dimensional graphics for simulations and computer-aided designs. I think that they are at least 18 months ahead of competitors," he says.

This year we added two international experts. Mark Yim of Baring Securities' Tokyo office selects Daiei (Tokyo Stock Exchange), Japan's largest retailer. Yim believes Daiei will benefit from the expansion of leisure time and consumer spending in Japan.

Richard Holbrook, director of research for money managers Bailard, Biehl & Kaiser in San Mateo, Calif., favors Ito Yokado (o-t-c, 138¼), the second-largest Japanese retail firm. It has the Japanese franchise for 7-Eleven stores, and also runs supermarkets. Like Yim, Holbrook is encouraged by forecasts of Japanese consumer spending and expects a 30% rise in Ito Yokado in 1989.

As we said, 1988 wasn't a good year for the bears. Malcolm Lowenthal of Shearson Lehman picked Japan Air Lines, up 3.3%, the smallest gain of last year's short-pickers. Lowenthal gets another shot. His 1989 pick: Traditional Industries (o-t-c, 7), which sells photo kits door-to-door and by mail order. "Their product is something not everyone needs, and there is a Federal Trade Commission investigation of their sales practices that could be quite damaging," he says. Traditional's chief executive, Arland Dunn, says, "We're negotiating with the FTC for a settlement."

Our four new short-sellers: John Brooks, a managing director for Marshall & Co. in Atlanta, is knocking Matsushita (NYSE, 199½), the largest Japanese producer of electronics equipment. "The stronger dollar against the yen should put a drag on Matsushita's earnings," says Brooks.

The 1988 results

Over the last 12 months these ten picks gained an average 41%, against 19% for the Wilshire.

Name/stock	% change
Frederick Moran/Amer Cellular	122.2%
Thomas Bailey/Chambers Develop	70.5
Elliott Schlang/Calgon Carbon	64.2
John Stewart/Warner Comm	39.8
David Elias/Union Carbide	32.9
Frank Williams/Medco Containment	29.5
John Keller/CMI Corp	22.2
Dee Osborn/Bristol-Myers	16.4
Richard Schmidt/Genuine Parts	7.5
Susan Byrne/Neiman Marcus Group	6.3

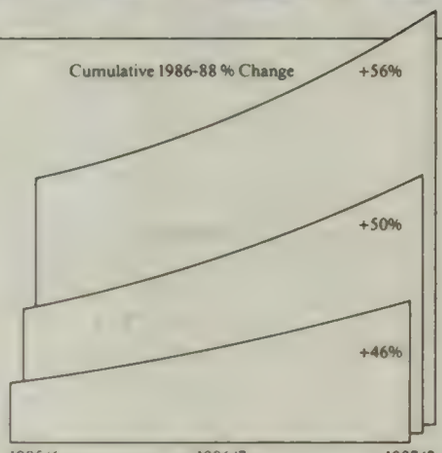
Closing prices: Nov. 30, 1988.

Thornton O'glove, publisher of the *Quality Of Earnings Report*, a newsletter based in Englewood Cliffs, N.J., thinks Acuson (NYSE, 22¾) (FORBES, *Oct. 31, 1988*), which makes ultrasound imaging equipment for doctors, is a short. He says that with growing accounts receivable and inventories moving faster than sales, the company's earnings over the next 12 months will be disappointing.

NEC (o-t-c, 78⅞), one of Japan's largest telecommunications equipment makers, is the short recommendation from Alan Gaines, president of New York City-based Gaines, Berland. Gaines doesn't like the company's multiple of 78. "None of the Japanese stocks that we follow are even remotely close," says Gaines. He expects the stock to drop to 60 or less.

Michael Murphy, editor of *The Overpriced Stock Service* in San Francisco, says that CopyTele (o-t-c, 13⅜), a longtime favorite of the short-sellers, "has the potential to go to zero." Murphy cites the absence of sales, earnings and products. CopyTele, which is developing a flat panel display to replace liquid crystal displays, refused to comment. Caution for short-sellers: It's not easy to borrow this stock, and the risk of a short squeeze is ever present. In a squeeze, the bulls refuse to lend out their certificates and thereby force the bears to buy in at outlandish prices. ■

Added value.



	1985/6	1986/7	1987/8
Profit before tax	680.2	843.8	1,063.9†
Earnings per share	0.59	0.72	0.89†
Dividend per share	0.19	0.22	0.28††

U.S. Dollar equivalent numbers are based on the current exchange rate of £1 = U.S. $1.85

† Preliminary results for year to 9/10/88 †† Recommended

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The bond portion of those "unbundled stock units" may be good buys, given their high credit quality and call protection.

LET'S CALL THEM BUNDLE BONDS

By Ben Weberman

Shearson's proposal to "unbundle" up to one-fifth of the shares of a number of companies into bonds, dividend-growth certificates and warrants has attractions for a lot of the players. The scheme offers tax benefits to the issuers and fat fees to Shearson. Does it offer anything to bond buyers? Quite possibly, yes.

Investors won't know, of course, how good a deal the bond portions are until they start trading sometime late in February. But the bonds—let's call them bundle bonds—will have the best protection against premature redemption and so-called event risk of any corporate bond. And they will, to a limited extent, be able to share in common stock price gains in the case of a bidding war for the issuer.

These two features should make the bonds worth 25 to 40 basis points of yield concession. To put it another way: If these bonds end up trading at about the same yield to maturity as conventional bonds of the same issuers, they will be a buy.

The first customers for the unbundling are American Express (Shearson's parent), Dow Chemical, Pfizer and Sara Lee Corp., which are offering trade-ins on up to $5.5 billion of stock. If the offers are heavily subscribed, doubtless many other companies will follow suit.

In the unbundling, a share of stock is carved into three units. The first is a bond paying fixed—and guaranteed—interest equal to the most recent quarterly dividend on the issuer's stock. A Dow bundle bond, for instance, will pay 70 cents a quarter. The bond matures in 30 years at a par value that will be set at around 2½ times the current stock price. For Dow this maturity value will be about $200.

The second unit, a dividend-growth certificate, receives that part of the cash dividend on common in excess of levels distributed at the time the exchange becomes effective. If Dow raises its dividend from 70 cents to 80 cents, growth certificate holders will start off getting the difference of 10 cents a quarter. The growth units have a token maturity value.

The third unit is a warrant on Dow stock exercisable in 2019 at 200 (or whatever the bond's maturity value is set at). A warrant holder also has to turn in a growth certificate when exercising the warrant.

The package has been so arranged that the three units are approximately equal in value to one share of stock. But not exactly equal. The package is really worth one share of stock plus one put exercisable in 2019 at 200. Why? Because if Dow ends the period trading at less than 200, the holder of the three units can discard the warrant and collect $200 in cash, which leaves him ahead of an ordinary shareholder.

If the package is almost the same as a share, why unbundle? Because the company gets a tax saving by converting some of its dividend payments into deductible bond interest. The company, not tendering shareholders, picks up the tab for the 1.6% financial advisory fee.

What's the bond worth? Since the $2.80 annual coupon will be small in relation to the $200 par value, and since redemption is 30 years away, the bond's value is only a small fraction of par. Some ordinary long-term Dow bonds, the 8½s of 2006, are trading at a 10% yield to maturity. With such a yield, the $2.80 bond would be worth $37.50 today. (The fact that the payments are quarterly rather than semiannual adds about 1% to the bond's value.) The bonds will trade, however, in the usual $1,000 units of par value. The Dows, then, will start at about $187.50 per $1,000, which is quoted among traders as 18¾.

The bonds will have the characteristics of original-issue deep discount debt. Accretion, as well as the cash interest, will be counted as income subject to federal and state tax. Accretion is the gradual build-up in the value of the bond from wherever it starts trading to the ending value of around $200. Since the bondholder is getting a 10% return, the bond will, in its first year, create about $3.75 a year in taxable interest income—that is, $2.80 in cash and 95 cents in accretion. In the final year there will be about $18 of interest—$2.80 cash and the rest accretion.

And what if the bundle bonds indeed trade at the same yield to maturity as the 8½s of 2006? Consider them a buy. That's because they have excellent call protection: In the event that the company wishes to redeem the bundle bonds prior to maturity, it is required to pay full principal amount.

In a takeover of Dow, bundle bond investors will not be RJRed. Through an exchange option related to the price of the bonds and the stock, bondholders can even share in stock price gains if competing bids do, indeed, spiral higher.

Tax-exempt holders of Dow should tender. Taxable holders should think twice. The exchange will cost you capital gains tax if you have a gain, but it won't create a deductible loss if you have a loss.

If you don't own Dow and are looking for a fixed-income investment on a high-grade company, consider buying the bundle bonds after they start trading. ■

Ben Weberman is a contributing editor of FORBES *magazine.*

In picking stocks, studying the numbers ought to be backed up with some knowledge of what's going on in the real world.

GETTING THE LOWDOWN

By Kenneth L. Fisher

In 1958 my father's *Common Stocks and Uncommon Profits* became the first stock market book ever to make the *New York Times* bestseller list. Its brief but bold introduction of "scuttlebutt" as a new means for picking stocks gave investors some unorthodox advice. By this he meant going beyond the published figures and talking with customers, competitors and suppliers before buying a company's stock. The idea was radical then. Funny thing is, it is still seldom done.

Most investment research—then and now—is done by reading reports and talking to the company in question. Quantitative and computer-driven analyses have been steadily on the rise. But depending on numbers without knowing something of what lies behind them can leave you vulnerable to surprises.

Scuttlebutt lets you get beyond the numbers to find out whether the company you plan to invest in has certain necessary strategic advantages, things like low-cost production skills or low-cost distribution. The advantage can be something like regional dominance or location or a reputation for superior service.

Kenneth L. Fisher is a Woodside, Calif. based money manager. He has written two books The Wall Street Waltz *and* Super Stocks.

For my own firm I have developed what I call the "12-call" process for gathering useful scuttlebutt. Here's an example of how it works:

We assigned MBA ex-journalist Sally Allen to apply the system to *Fleetwood Enterprises* (24). Her assignment was to complete 12 telephone calls, 4 each to customers, competitors and suppliers.

Of the customers she was to ask "buying" questions like: "What swings your decision to buy from Company A versus Companies B, C and D—price, quality, service?"

Of the competitors she was to ask a set of "sell" questions like: "Why do you sometimes win when you sell against Company A, and what makes you sometimes lose?"

For the suppliers she needed to pose questions you would normally ask a Wall Street expert because, in a very real sense, suppliers are the best experts. They spend most of their lives analyzing what makes their customers tick. Here Allen might ask derivatives from, "Who tend to be the leaders and followers in this industry and why?"

What one looks for in all these calls is a consistent pattern showing that the company concerned has the strategic strengths that are necessary for superior performance over its competitors—what I like to call "unfair advantages." If you don't hear much consistency in the 12 calls, you can safely assume no such advantage exists.

Of course, to complete 12 calls, we might have to make 40. But once completed, 12-call feedback provides a portrait of a company that makes any normal Wall Street qualitative analysis seem colorless.

An easy process? No. First, you have to figure out whom to call. Then you have to figure out how to get them to talk.

Allen easily got the names of competitors from Fleetwood's public documents. Customers were easy, too—from the phone book—they are dealers. Suppliers are tougher, both because they are often harder to identify and they are much harder to get talking. They don't want to say something bad to you that might get back to their customers. Allen had to do what we call "building bridges" by asking the customers and competitors who the suppliers were and getting names back in ones and twos.

How do you get all these folks talking? Well, no surprise—some won't. But, believe it or not, most folks love to talk—eat it up—if you can get them going and they don't feel threatened. The key is: Ask for no sensitive information and only five minutes of their time. Once loosened up, most people enjoy being treated as experts. One guy went on for an hour with Allen and in a follow-up call to me told me how much he enjoyed the time with her.

So, what did Sally Allen's 12 completed telephone calls tell us about Fleetwood? We already knew from the numbers that Fleetwood has dominant market share in mobile homes, motor homes and travel trailers and has been increasing its lead. What we learned from working the telephone was that this dominance was no accident but could be traced to superior distribution and below-average production costs.

We also learned from suppliers that Fleetwood's production cost advantage is reinforced by its duel dominance in both motor and mobile homes. This allows it to get volume discounts in costly items like appliances, which are common to both product lines—whereas the top also-rans tend to be in either one product line or the other, and hence competitively a step behind. In short, we learned that the dominance is not only secure but likely to grow over the next few years as Fleetwood continues to gain market share by taking it away from its smaller and weaker brethren.

You add up major advantages like that and you know you have a good company, one with a solid future, despite the fact that its industry has been in the doghouse for years. And that makes Fleetwood cheap at 35% of sales and 8 times earnings. ■

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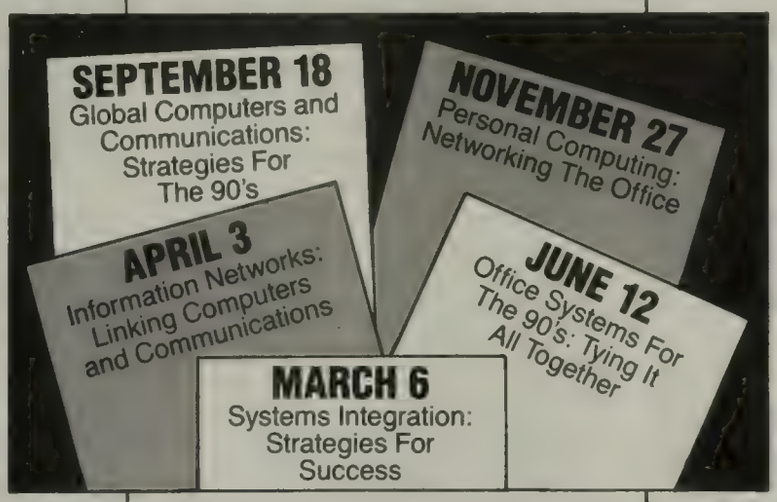

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An arms reduction deal with the Soviet Union will help, but it won't necessarily solve all our financial problems.

A GLIMMER OF HOPE

By Ashby Bladen

If Mr. Gorbachev means what he said about reducing the size of the Red Army, and if he doesn't lose his job for saying it, then President-elect Bush will have an unprecedented opportunity to reverse the tide that has been sweeping the American people toward accelerating inflation and rising interest rates since 1961.

But reversing this lethal tide will take much more than the easy decision to stop spending increasingly huge amounts on weapons that we can only hope will never be used. It will require the President to abandon the very foundation upon which national economic policies have been built for half a century, the idea that we can forever borrow ourselves rich. Until he gives us good reason to believe he has seen through the illusion that is shared by Keynesians and supply-siders alike, it will be prudent to assume that we are still on course for new peaks of inflation and interest rates.

Before the Keynesian revolution in the 1930s, the main reason that national financial systems succeeded or failed—indeed, the main reason that they existed at all—was military spending. The current financial outlook is uncertain because, thanks to Mr. Gorbachev, we may be at a historic turning point toward lower military spending.

Modern financial history started with the Dutch, who successfully waged an 80-year war of national liberation that bankrupted Spain early in the 17th century. Modern finance moved on to England at the end of that century, when the Dutch Prince of Orange became King William III and used English men and money to fight the French threat to the independence of the Netherlands.

The English, led by Winston Churchill's ancestor, the Duke of Marlborough, eventually won out over the much larger and more populous France of Louis XIV because they were able to outborrow and outspend Louis. The English Parliament borrowed in the name of the people and always played fair with its creditors. Louis borrowed in his own name and repeatedly cheated his creditors.

This reputation for honoring its debts helped make Britain the financial center of the world until 1931, when a run forced the government to take Keynes' advice and devalue the pound. He argued that domestic comfort was more important than preserving a reputation for playing fair with foreign creditors. In so doing he helped reverse Winston Churchill's earlier decision to restore the prewar value of the pound as a means of playing fair with Britain's external creditors.

Shortly thereafter, President Roosevelt devalued the dollar and made it domestically inconvertible into gold because a pair of economists convinced him that inflation would help cure the Depression. And President Nixon didn't even think twice before he broke this country's promise to its foreign creditors by making the dollar completely inconvertible. During World War II the U.S. replaced the U.K. as the world's financial leader, but since 1933 our government has not deserved the reputation for playing fair with its creditors that the British maintained for nearly a quarter of a millenium. That is one reason I believe we are still headed for accelerating inflation and record interest rates, in spite of the opportunity we may now have to reduce military spending.

The other reason is that the stock market crash and the recent softness in real estate prices suggest that late 1987 or early 1988 marked the peak of a borrowing-and-spending spree that left the 1920s in the dust long ago. It has now left our domestic financial system so overextended that large parts of it will have to be bailed out on the credit of the federal government, regardless of the inflationary consequences.

This is the first time in all history that the country that had become the world's banker tried to abuse its position of trust in order to live the good life on tick. To the extent that the Red Army looks like less of a menace, the Western Europeans and Japanese will have less reason to put up with American improvidence and prop up our standard of living by supporting the dollar. As long as the budget impasse lasts, our only defense against a crashing dollar is monetary policy—meaning, inevitably, much higher interest rates on good credits and probably disastrous losses on many poor credits.

And, of course, the opportunity to cut arms spending may turn out to be a mirage, because Mr. Gorbachev is playing a high-risk game. He sees that after 70 years in power the Communist Party must start to make life tolerable for the people, or the Soviet Union is likely to blow up. But the Soviet hard-liners can make a good prima facie case that it is blowing up right now, and because of Mr. Gorbachev. If he loses power, his successor will be tempted to distract the people's attention from the bad results of an impossible economic system by an aggressive foreign policy aimed at protecting the endangered fatherland.

All in all, I continue to like Treasury bills. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis

Some contrarians say that investment newsletter editors are extremely bearish and that's bullish. Wrong on both counts.

UNHAPPY NEW YEAR?

By Mark Hulbert

Are stocks headed dramatically lower? Yes, according to the best-performing market timing newsletters monitored by my *Hulbert Financial Digest.* In fact, these timers are more bearish now than they have been in years—even more than they were prior to the 1987 crash.

Note carefully: I'm not saying that most advisers are bearish. While not enthusiastically bullish, the prevailing mood among all advisers is quite sanguine. The average recommended percentage exposure to stocks among all newsletters monitored by HFD stands at 41%—about where it stood during all of 1988 and more than double the level set just after the crash. But while the average is fairly bullish, however, the best-performing letters are outspokenly bearish.

Warning to contrarians: While it may be a good bet to go against the majority, it is not necessarily a good bet to go against the majority of the best and brightest. All but one of the seven best-performing newsletter editors—those whose market timing has beaten a buy-and-hold over the last four years—are bearish. On average they are 7.1% short.

My assessment of investment letter sentiment differs significantly from that of *Investors Intelligence,* the service most widely known for its monitoring of letter sentiment data, which has been reporting gloom on a scale almost unprecedented since June 1982. This disagreement probably reflects our different methodologies.

Investors Intelligence classifies investment letters by reading them and deciding whether they sound bullish, bearish, long-term bullish but expecting a correction, etc. I don't envy editor Michael Burke this job. It involves exquisite questions of judgment. For example, it's difficult to distinguish between those letters that are outright bearish and those merely expecting a correction. And one letter's idea of long term is another's short term.

Moreover, *Investors Intelligence* itself is committed to the concept of contrary opinion. It has been argued—for example, by Bob Gross in his shrewd *Professional Investor* letter—that this subconsciously influences *Investors Intelligence* to decide that other advisers are bearish when it is itself bullish and vice versa.

In the *Hulbert Financial Digest,* I measure advisory sentiment by watching what advisers do rather than what they say. Instead of trying to figure out whether an adviser is more or less bullish or bearish, I look to see how the adviser translates his market opinion into a recommended percentage exposure to the market. Then I average them. The current average exposure of 41% is neither a bullish nor a bearish extreme.

But measuring the consensus is not the only problem with contrary opinion. You also have to interpret the result. Many contrarians believe that once the consensus has been determined, you should simply do the opposite. But for any given forecast there are an indefinite number of opposites. What if the consensus is that the market will be confined to a trading range for the next 18 months before entering a new bull market? An adviser believing in a near-term runup to new highs could claim contrarian support for his belief—but then so could the adviser calling for a crash.

Another problem with contrarian analyses: The investment letter industry doesn't deserve this whipping-boy status. The fact is that during strong long-term market moves—such as the 1982-87 bull market—advisers on the whole are more right than wrong. Advisers may be wrong at market turning points (though even here the data are not particularly convincing), but that doesn't preclude their being on the money for much of the time in between. This was exactly the mistake *Investors Intelligence* made after August 1982, when it saw that most advisers had turned bullish and accordingly kept its subscribers out of stocks for most of what turned out to be an epochal bull market.

Where I do believe the data are convincing is when the best-performing letters and the consensus of all letters diverge. My work at the HFD has convinced me that long-run winners have a tendency to keep on winning, particularly when they disagree with their less-successful colleagues. As they are doing now.

These problems were evident in a recent *Wall Street Journal* article that questioned the advisory sentiment indicator. Noting that *Investors Intelligence* was reporting the low levels of bullishness but that the market had not contrarily rallied, the *Journal* suggested that the indicator might have stopped working. I don't agree with either the assessment or the analysis.

I believe the contrarian argument that stocks are due for a rally is wrong on two counts: Advisory sentiment isn't in fact all that bearish; and even if it were, the implication wouldn't necessarily be bullish. But the market timers who have beaten the market over the past four years on average are at bearish extremes, and they have been more right than wrong. Bad news for the bulls. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Minerva Books.*

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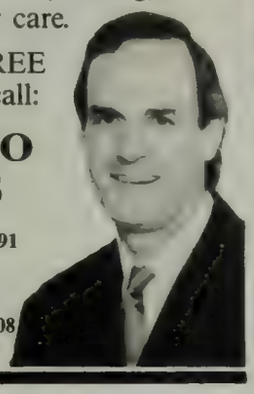

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Edited by Thomas Jaffe

Yield inversion

In early December the yield curve—the relationship between debt yields and debt maturities at a particular point in time—turned negative for the first time since the early 1980s. Normally the yield curve slopes upward, demonstrating that lenders demand higher yields the longer their money is at risk. On June 14, 1985, for example, the yield curve was positive: Yields on a 2-year Treasury note were 8.38%, versus 10.28% on 30-year Treasury bonds.

But now the yield curve has a negative slope—it's inverted. The yield on a 2-year Treasury is 9.17%, versus a 9.04% yield on the long bonds.

Why has the yield curve changed its slope from positive to negative? We put the question to Allan Leslie, chief economist for the Discount Corporation of New York. Leslie explained that yields on long bonds haven't risen much because the Federal Reserve is doing a reasonably good job of containing inflation; investors expect that this will continue. There is also the expectation that, near term, the Fed will have to continue to raise short-term rates because the economy is stronger than desired this late in the economic cycle. Since March the federal funds rate has risen by more than 200 basis points and taken other short-term rates along for the ride. Also important, there is a dearth of long bonds relative to short-term securities. The "stripping" of long-term bonds—the breakdown of a bond's income stream over its entire life so that its component interest payments or final payment can be sold separately—has sucked product out of the market. All these factors have helped keep the price of long bonds up and their yields down.

Normally, an inverted yield curve is a bearish indicator for stocks: It signals that high short rates are likely to dampen the economy and so make long bonds an attractive purchase.

Does today's inverted curve signal bad news for the stock market? Not necessarily. "Each time the yield curve inverts," says Leslie, "it's because of a whole different set of circumstances." Indeed, the yield curve was also inverted in the summer of 1982. It wasn't long after that the five-year bull market began.

Is another upsurge in store for stocks, then? Here, too, Leslie hesitates. In the late 1970s and early 1980s, he reminds us, the federal funds rate rose as high as 21%. Leslie: "We came down off such high short-term rates because the expectation was we were coming out of a recession and into an expansion. But we're not coming out of a recession now; we're just coming closer to the end of an expansion. That's why I hesitate to draw the parallel [with June 1982]."

Forced to choose, Leslie says he prefers government securities to stocks these days. Quite possibly, today's yield curve is signaling that growth will continue at a lessened pace and that the Fed will be able to contain inflation. That, Leslie predicts, should cause bond yields to fall and prices to rise over the next few years. "I'm not an equities man," Leslie admits. "But with the economy slowing, corporate profits should go down, returns on equity be less. Under those conditions, I can't believe you'll have a much better stock market."

Repeat performance?

New York City-based Willcox & Gibbs distributes electrical components for the construction, replacement and original equipment markets, supplies parts to the apparel industry and manufactures covered yarn for panty hose. William Block, a New York-based analyst for St. Louis' Newhard, Cook & Co., is now recommending the $382 million (estimated 1988 sales) company.

Block argues that Willcox is expert at acquiring and turning around undercapitalized businesses. Consider Consolidated Electric, an operator of 44 distribution warehouses. Willcox bought it five years ago for $20 million in cash and a maximum earnings payout of $6.5 million. Under Willcox, Consolidated's sales doubled (to $178 million) by 1987. For 1988 it will report operating profits of over $12 million. The acquisition, in short, more than paid for itself.

Now Block is betting Willcox can work its magic with $85 million (sales) Clark Consolidated Industries, an Ohio electrical distributor being acquired for $18 million. The analyst is also excited by Satelite Plus. A real-time system that Willcox introduced in 1987, the service is used to monitor employee productivity in the apparel industry. Sales this year shouldn't be much more than $6 million, but Levi Strauss, Superior Surgical and Red Kap (part of V.F. Corp.) have installed the system in various plants.

In 1988 Block expects Willcox' earnings to rise 39%, to $1.40 a share. He's looking for a 32% gain, to $1.85, next year, with 25 cents to 30 cents of that increase coming from Clark Consolidated and Satelite Plus. Recent New York Stock Exchange price for the 9.9 million shares (11% controlled by insiders): 15, a modest 8 times estimated 1989 earnings.

Sound bearings

Little Kaydon Corp. of Muskegon, Mich.—estimated 1988 sales of $135 million—makes everything from custom-engineered bearings and filters to high-performance sealing rings and shaft seals. The aerospace and defense markets make up roughly one-third of sales, replacement parts and exports account for another third, and most of the rest goes to manufacturers of special industrial machinery.

When Kaydon was spun off from Bairnco in 1984, its debt/equity ratio stood at 10-to-1. It has since made a number of small acquisitions. Yet Kaydon has consistently generated healthy amounts of cash flow—currently more than $3.25 per share a year—allowing it to transform that balance sheet dramatically. Shareholders' equity outstrips debt by 2.4-to-1.

Analyst L. Crandall Hays, of Milwaukee's Robert W. Baird & Co., estimates the company will earn $2.43 a share this year, up 21.5%. In 1989 he's looking for an increase to $2.85. Recent o-t-c price: 26. Hayes thinks Kaydon, selling for 9 times next year's anticipated earnings, is a solid long-term buy. There are 8.5 million shares outstanding; insiders own 23%.

Dueling needles

Terumo, the big Japanese medical supply company, is taking aim at the U.S. syringe business, where it has a 5% market share. With the opening of a plant in Elkton, Md., Terumo hopes to increase that share to 20% over the next three years. This means it will be dueling with Becton Dickinson and Co., the U.S. market leader in syringes. But analyst Kenneth Abramowitz, of New York's Sanford

C. Bernstein & Co., doesn't think Terumo will derail the 15% annual growth he's projecting for $1.7 billion (sales) Becton over the next few years.

Becton, says Abramowitz, has high-quality, innovative products; it's also the leader in insulin syringes. Its businesses in examination and surgeons' gloves are growing rapidly, it is gaining share in intravenous catheters, and new diagnostic products are on the way. The firm enjoys low manufacturing costs, strong marketing and close distributor relationships. Abramowitz notes neither Baxter International nor Owens & Minor, two large distributors of medical supplies, intends to carry the Terumo line.

For the fiscal year ended Sept. 30, Becton earned $4.01 a share, up 12%. This year Abramowitz looks for a 17% gain, to $4.70. Recent NYSE price: 54. Selling for 11.5 times expected earnings and up only 6% in 1988, the stock's a buy, says he. There are 39.4 million shares outstanding.

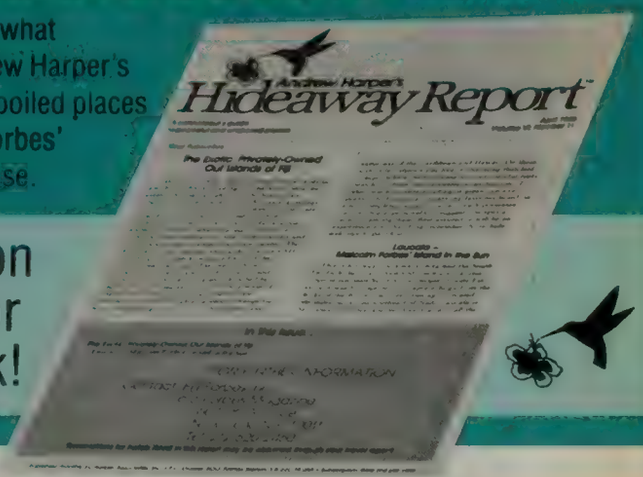
Catch-up stock

If you've overlooked someone on your gift list, here's a stock that might make amends: A.P. Green Industries, Inc. Headquartered in Mexico, Mo., $190 million (estimated 1988 sales) Green manufactures refractory products. The company was spun off to the public by USG last February.

Green's refractory products, heat-resistant materials that can withstand corrosion by chemicals, are used in high-temperature manufacturing processes. The company's markets range from iron and steel to chemicals and ceramics. While the refractories business is still plagued by excess capacity, Green has cut capacity by 30%, suggesting stronger pricing ahead. Green's clay deposits supply about half its raw material needs.

Herbert Buchbinder, an analyst in Kidder, Peabody's Kansas City office, expects Green to earn over $3 a share this year, and $3.60 in 1989; operations, he says, will generate over $5 a share of cash in 1988, substantially more than is needed to run the business. Long-term debt is less than 10% of total capitalization. Although the stock is near its 12-month high (recent o-t-c price, 27½), it's still selling for just 8 times next year's projected earnings and at roughly a 30% discount from book value. Desert Partners holds 8.5% of Green's 2.6 million shares; management owns about 3%. A few shares might look good, even if they're too late as stocking stuffers.

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper's exclusive guide to unspoiled places says about Malcolm Forbes' exotic Fiji Island paradise.



It's the vacation of a lifetime for $2,150 a week!

"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

"This is the way you always imagined the South Pacific to be – an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the *Bounty* two centuries ago. Situated 200 miles out to sea northeast of Nadi, Laucala is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds. . . .

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

Meals are a delight here, beginning with breakfast prepared by a cook and housekeeper in the privacy of your own bungalow at any hour you wish. Dinner and lively conversation are enjoyed at the atmospheric Plantation House . . .

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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"A browser's delight . . . A welcome change for insomniacs bored with counting sheep . . . Forbes pulls off a neat trick in making his choices come to life by describing their deaths."*—The Philadelphia Inquirer*

"An outrageously funny book"
—The Star Ledger

Partial Contents

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Attila the Hun
Sir Francis Bacon
P.T. Barnum
Busby Berkeley
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Alfred S. Bloomingdale
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Rudolph Valentino
Sid Vicious
Raoul Wallenberg
Karl Wallenda
George Washington
Oscar Wilde
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SIMON AND SCHUSTER
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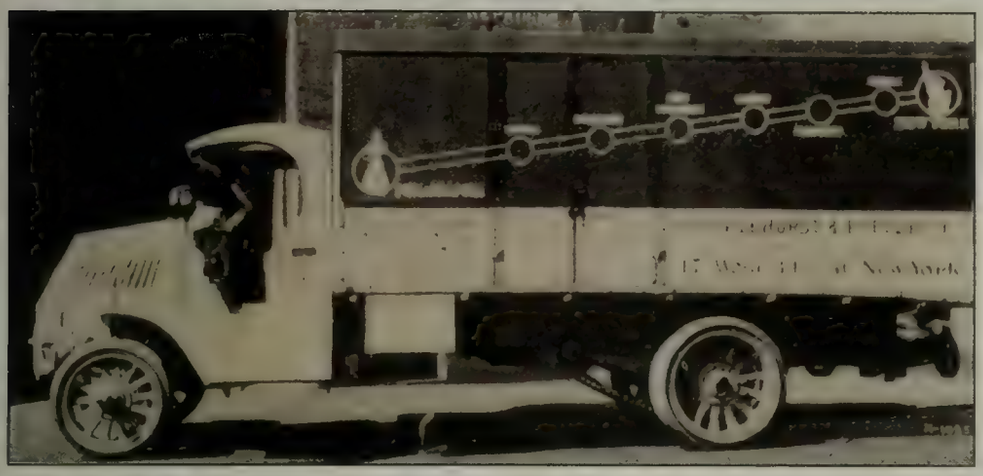
Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ." Items from past issues of FORBES



Over-the-road trucking was already well developed by 1919, witness this unit of a 100-truck fleet operating between New York and Philadelphia

Seventy years ago in FORBES

(From the issue of January 11, 1919)

"All this talk about refusing to have any trade dealings with Germany is sheer nonsense begotten of ignorance. . . . If Germany is to be able to pay damages to the extent of her capacity, then she must be given facilities to buy and sell outside her own borders. She must be allowed to import not only the necessities of life which she lacks, but she must be permitted to import raw materials, machinery etc. Instead of making it impossible for Germany to earn money, let her have all reasonable facilities for earning money, and then compel her to pay over this money, or the bulk of it, to her Allied creditors."

Sixty years ago

(From the issue of January 15, 1929)

"President-elect Hoover's radical change of plans, which has brought him back to Washington much earlier than expected, is reported to be due to pressure of his aides in Washington who feel that he must make a few preliminary decisions. Among these some suggestions as to his new cabinet are probably the main ones hoped for."

"Estimated domestic production of cigarettes in the U.S. last year of approximately 106 billion represents an increase of practically 100% in the past ten years. In 1919 output totaled only 53.1 billion cigarettes, while production was smaller in 1920 and 1921. In the next seven years production gained steadily, and prominent tobacco men predict continued increases. . . ."

Fifty years ago

(From the issue of January 15, 1939)

"If Franklin D. Roosevelt follows a hands-off policy, and Congress acts sympathetically towards the fillers of pay envelopes, the American people will look to business, industrial, financial leaders to lift the country to a higher economic plane, to raise the national income from around $60 billion a year towards $80 billion a year."

Twenty-five years ago

(From the issue of January 15, 1964)

"On the $360,000 that CBS put up for *[My Fair Lady]*, the musical adaptation of George Bernard Shaw's *Pygmalion*, the production has grossed about $97 million, with almost half as much more expected in the next few years. CBS itself has netted approximately 27 times its orginal investment—an estimated $10 million. The gross on Broadway, nationally and overseas runs about $66 million."

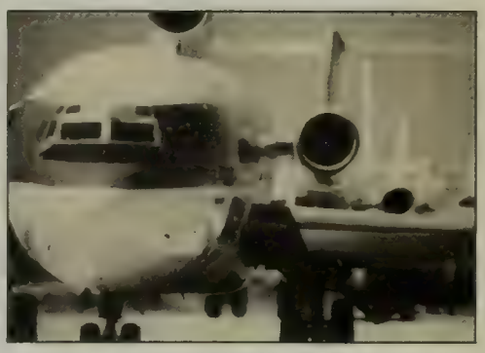
Julie Andrews and Rex Harrison in My Fair Lady—*both great art and bonanza*

"To celebrate their joys or drown their sorrows, perk their spirits or calm their nerves, Americans last year washed down about 261 million gallons of liquor, up 2.8% from 1962. Does this mean Americans are drinking more? No, says the distilled spirits industry, it simply means that more Americans are drinking more often but consuming less on each occasion. And the financial winner? The tax collector. Out of every dollar spent on the average fifth of liquor he takes 58 cents."

Ten years ago

(From the issue of January 8, 1979)

"For the tobacco industry the solution is clear-cut: diversification. The tobacco market has virtually stopped growing—it increased less than 1% last year, all of it in low-tar cigarettes. As the ranks of smokers have slowly but steadily diminished, nonsmokers have become a more powerful political majority."



Needed: a new jet fleet

"For the first time in a decade the big news in the aerospace industry isn't military production, but rather the commercial jet business. The world's airlines can't delay major purchases any longer: They have fuel-guzzling, aging fleets too small and too noisy to meet demands for quiet, efficient aircraft with increased seating capacity."

"Stephen Pistner, president of Minneapolis-based Dayton Hudson Corp., follows the Administration's line and calls 1979 'a soft landing' for retailing. J.C. Penney President Walter Neppl speaks cautiously of 'more moderate' retail growth this year: 8%, vs. 9% last year. Sears, Roebuck economist Jay Levine predicts a less-than-7% rise for retailers. . . . That's what retailers are saying about 1979. What they are *doing* is preparing for the worst—a year that may be as bad as the disastrous recession year of 1974."

Thoughts
on the Business of Life

The belief in the existence of opportunities to achieve economic equality has had a longer and more vital tradition in American history than has been the case anywhere else.
LOUIS HACKER

To do anything in this world worth doing, we must not stand back shivering and thinking of the cold and danger, but jump in, and scramble through as well as we can.
SYDNEY SMITH

We owe a lot to Thomas Edison —if it wasn't for him, we'd be watching television by candlelight.
MILTON BERLE

In great affairs we ought to apply ourselves less to creating chances than to profiting from those that offer.
LA ROCHEFOUCAULD

Civilization exists precisely so that there may be no masses but rather men alert enough never to constitute masses.
GEORGE BERNANOS

A great mind is one that can forget or look beyond itself.
WILLIAM HAZLITT

All men are creative but few are artists.
PAUL GOODMAN

The imagination imitates. It is the critical spirit that creates
OSCAR WILDE

Visionary people visionary partly because of the very great many things they don't see.
BERKELEY RICE

America, in the eyes of the world, typifies above all else this quality of initiative. The greatest successes are nearly all the fruit of initiative. Why do we hold in such high esteem the achievements of the Wright brothers? Because they were illustrious examples of initiative and tenacity. And ideas are born of initiative, the children of men and women of initiative. Advancement is applied initiative. Don't imitate. Initiate.
B.C. FORBES

Vision is the art of seeing things invisible.
JONATHAN SWIFT

The real truths are those that can be invented.
KARL KRAUS

The sensibility of man to trifles, and his insensibility to great things, indicates a strange inversion.
BLAISE PASCAL

He that would have fruit must climb the tree.
THOMAS FULLER

The wise man never initiates any action.
BHAGAVAD GITA

More than 6,000 "Thoughts," indexed by author and subject, are available in a two-volume boxed set at $31.95 ($18.50 per volume if purchased separately). Also available, a one-volume edition of over 3,000 "Thoughts." Price: $18.50. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add sales tax on orders in New York State and other states where applicable.

The fellow that can only see a week ahead is always the popular fellow, for he is looking with the crowd. But the one that can see years ahead, he has a telescope but he can't make anybody believe he has it.
WILL ROGERS

True vision is always twofold. It involves emotional comprehensions as well as physical perception.
ROSS PARMENTER

In our complex world, there cannot be fruitful initiative without government, but unfortunately, there can be government without initiative.
BERTRAND RUSSELL

Nothing will ever be attempted, if all possible objections must first be overcome.
SAMUEL JOHNSON

A Text . . .

For God is not unrighteous to forget your work and labour of love, which ye have shewed toward his name, in that ye have ministered to the saints, and do minister.
HEBREWS 6:10

Sent in by Chris Wyman, Austin, Tex. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

The method of the enterprising is to plan with audacity and execute with vigor.
CHRISTIAN BOVEE

Name the greatest of all inventors. Accident.
MARK TWAIN

January 23

WHY BONDS ARE BECOMING AS SPECULATIVE AS STOCKS

NEW TWIST IN MO INFLATION-ADJUS

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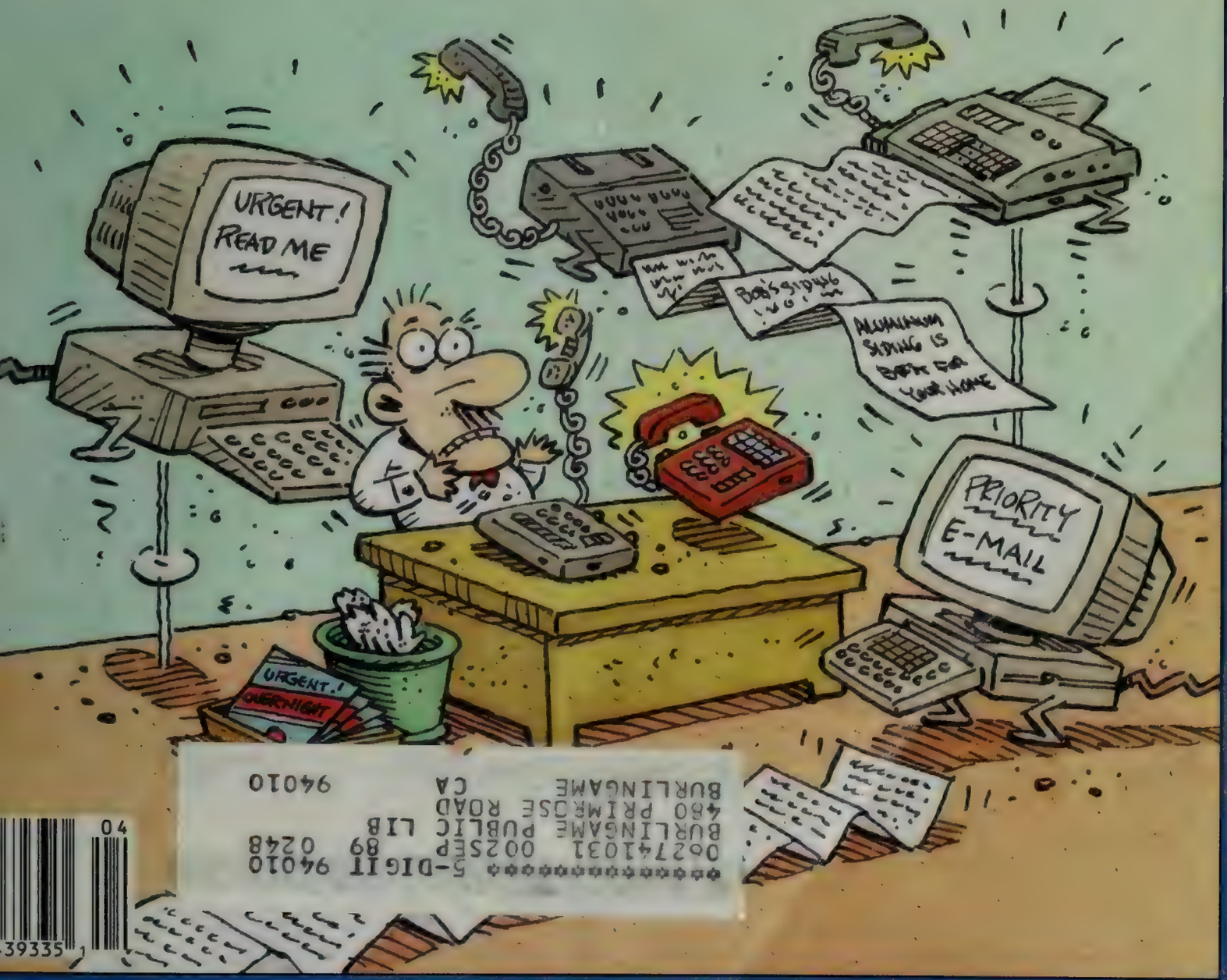

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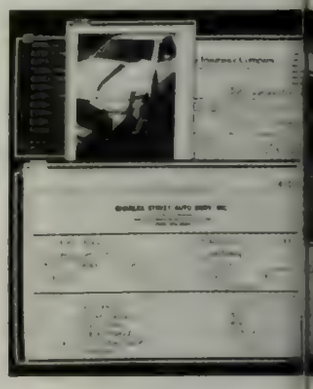

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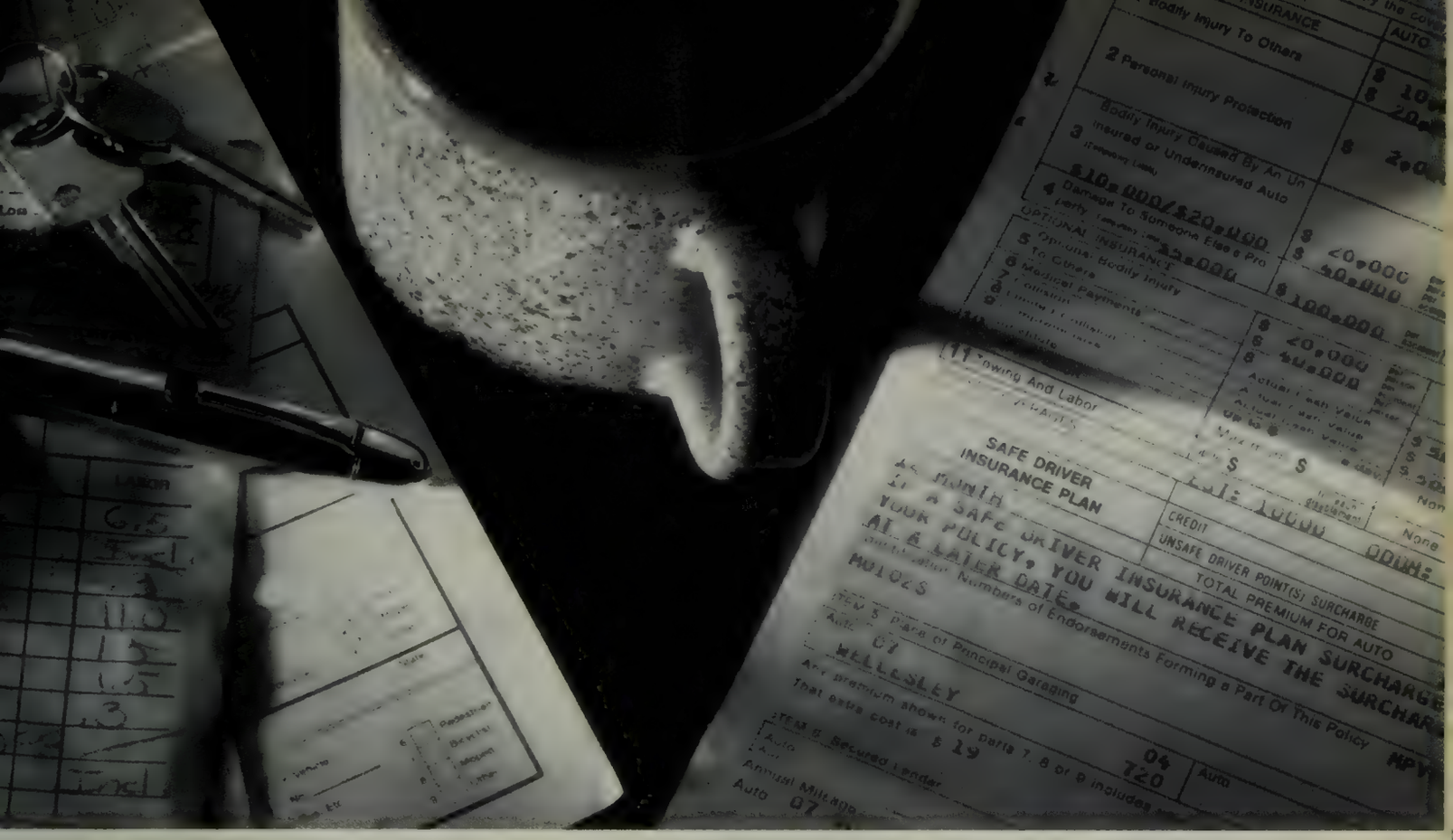

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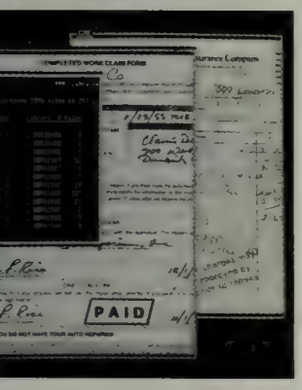

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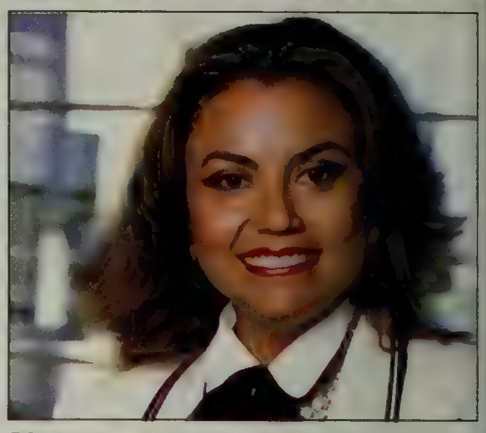

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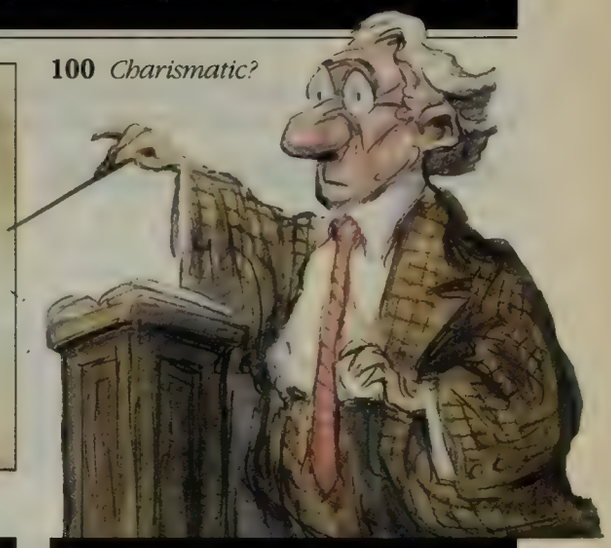

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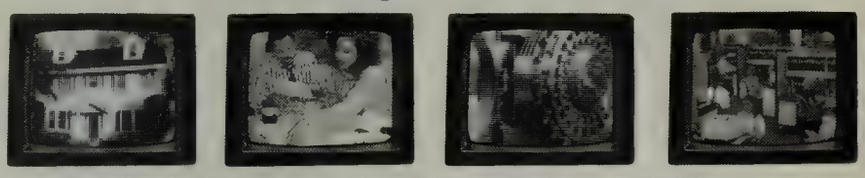

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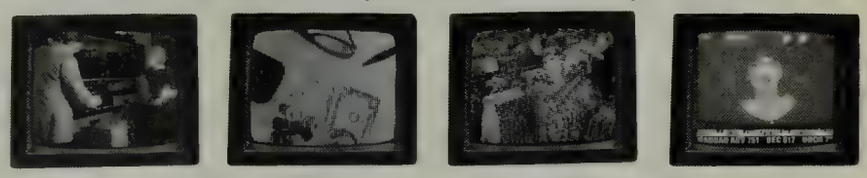

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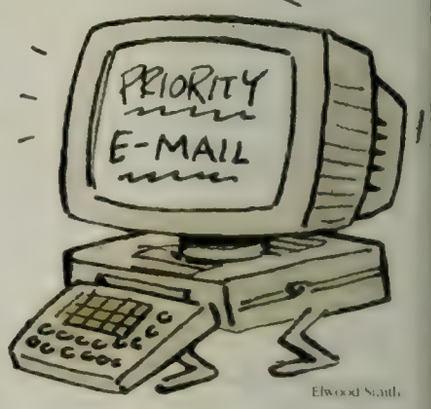
Electronic countermeasures

"They know who we are and where we live. They know what time we sit down to dinner. They want our attention, and they have the money and technology to get it." That's how David Churbuck describes the way marketing people are exploiting computer/communications technology to force their messages on the affluent consumer, whether the prospect wants to receive the message or not.

Faced with the older direct marketing technology, people could simply throw away, unread, unwanted mail solicitations; zap the TV on unwanted commercials; and fend off unwanted telephone calls with an answering machine and unlisted number. But we live in an incredibly dynamic age: The marketers are finding new, high-tech ways of forcing their pitches through to us, while counter-technology is being developed to block their access. Says Dave Churbuck, who covers computers/communications for us: "The sci-fi fantasy of dueling computers—them against yours—is becoming real." His story, "Prepare for E-mail attack," starts on page 82.



Elwood Smith

Wall Street's equivalent of casual sex

"Once, investment bankers and companies, like swans, were presumed to mate for life. Now, the one-transaction approach, Wall Street's equivalent of the one-night stand, is the norm. One-night stands carry no lasting obligations."

What has investment banking to do with casual sex? The quote is from "The rape of the bondholder" by Allan Sloan. The article explains how increasingly casual attitudes toward debt on Wall Street have helped make the bond market as volatile and risky as the stock market—if not more so. Time was when you paid your debts or went to debtors' prison. Now, if you can't pay you simply restructure. What does this all mean to business? To investors? The story starts on page 67.

Affordable mortgages for everyone?

Why are interest rates so high today? In large part because the rates now carry high premiums for inflation and for volatility in addition to the relatively modest real rate of return. Theory aside, a sad result is that a good many people cannot afford to buy homes. A partial solution may be at hand. The federal government will soon approve a new kind of mortgage, the price-level-adjusted mortgage—PLAM for short. PLAMs strip the inflation and volatility premiums from home mortgage lending and base monthly payments on a low—say 4%—real interest rate. This could cut initial monthly payments in half for many homebuyers. Yes, right in half. Is there a catch? Yes, but not a fatal one. Ronald Bailey tells the story on page 38.

James W. Michaels
Editor

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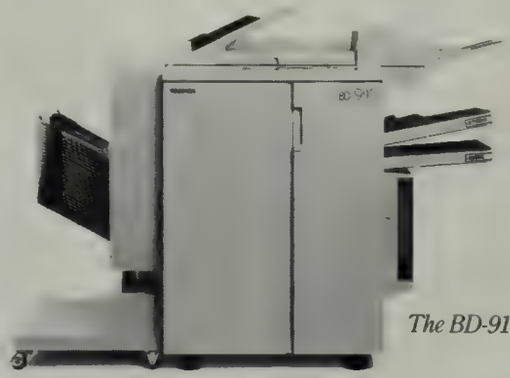

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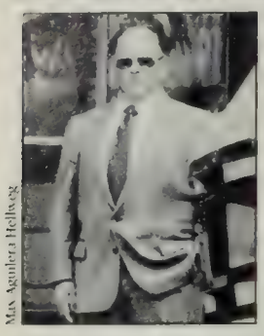


Max Aguilera-Hellweg

Survival of the fittest

Nov. 18, 1985

Glenn Kummer

Times were tough for Fleetwood Enterprises, FORBES said three years ago, because its businesses—recreational vehicles and mobile home manufacturing—were in prolonged slumps. But Fleetwood to us looked like a survivor. We figured that the well-run company, unlike some competitors, would be around to take advantage of the next up cycle.

Fleetwood has indeed survived and prospered, even as competitors have gone under. President Glenn Kummer has overseen a strong recovery as the market for recreational vehicles hit a prolonged up cycle. Fleetwood's earnings are strong, debt is negligible, and the stock has bounced back from 19 to 24 a share.

A financing company set up by Kummer has performed well by extending credit only to Fleetwood's RV customers, avoiding the far riskier mobile home buyers. While the manufactured housing market is still only at 40% of its glory days in the early 1980s, it too has bottomed out. Demographics favor a continued strong market for recreational vehicles, and Fleetwood is adding market share in both of its core businesses. It looks like good times ahead for this scrappy survivor.—**Edward F. Cone**

Too far afield

Dec. 14, 1987

Keith Turley

Only a [illegible] ago Pinnacle West Capital [illegible] the parent company of Arizona Public Service, was diversifying into businesses from banking to real estate to uranium mining. Chairman Keith Turley was excited about competing in fields less regulated [illegible] electric power, but FORBES worried that the company was moving beyond its field of expertise.

We were right. For the first three quarters of 1988, Pinnacle took a hit of $8.7 million for bad or shaky loans on its MeraBank thrift. Pinnacle also took a $75 million charge on its real estate ventures and a $15 million loss on its uranium mining operations, both acquired in the past three years. After a recent dividend cut—from 70 cents to 40 cents a quarter—Wall Street has hammered Arizona Power's stock down from 29¾ to 16 a share in the last year.

Ironically, analyst Craig Schwerdt at Morgan, Olmstead, Kennedy & Gardner in Los Angeles values Arizona Public Service at some $24 on its own, without the messy diversifications.

Sometimes it's best to leave well enough alone.—**E.F.C.**

Bill Kelly

Better than good

Feb. 27, 1984

John Kanas

The last time FORBES reported on tiny North Fork Bank & Trust Co. (1984 assets, $260 million), nearly five years ago, the Long Island bank had just appeared on our 200 best small companies list but was about to face the consequences of bank deregulation. New York money center banks were rapidly encroaching on North Fork's lucrative eastern Long Island turf, and FORBES—while impressed with President John Kanas and his bank's performance—said that "the real battle was just beginning."

Now the smoke has cleared, and North Fork Bancorp, today with $1.5 billion in assets, appears to have won its battle. Squeezed by tough competition, Long Island's market leader, Chemical Bank, announced in early 1988 that it would shed its 30 eastern Long Island branch offices. Meanwhile, well-capitalized (8.45% of assets; a 1.32% return on assets) North Fork has expanded its branch system to 32 outlets, largely through a merger with Southold Savings. Kanas, now 42, plans to stick to Long Island's $50 billion banking market and expects North Fork will eventually come out on top.—**Matthew Schifrin**

Nora Feller

Fast tract seller

Apr. 21, 1986

Dave and Gail Liniger

Brash Dave Liniger and his real estate brokerage firm, RE/MAX International, were moving into the big leagues of residential real estate, FORBES reported nearly three years ago. With an aggressive franchising strategy and highly productive agents who outsold rivals 3-to-1 on a per capita basis, RE/MAX was gunning to be number one in home sales.

Liniger is indeed getting results. Last year RE/MAX passed Coldwell Banker to become the nation's number two residential broker, with commissions of $1.1 billion on total sales of $35 billion. Meanwhile, Liniger has doubled his number of offices and agents while maintaining the high performance and reinvesting profits into the company's growth. Can RE/MAX catch Century 21? Already almost two-thirds its size in sales, RE/MAX, according to Liniger, will be on top by 1991.—**E.F.C.**

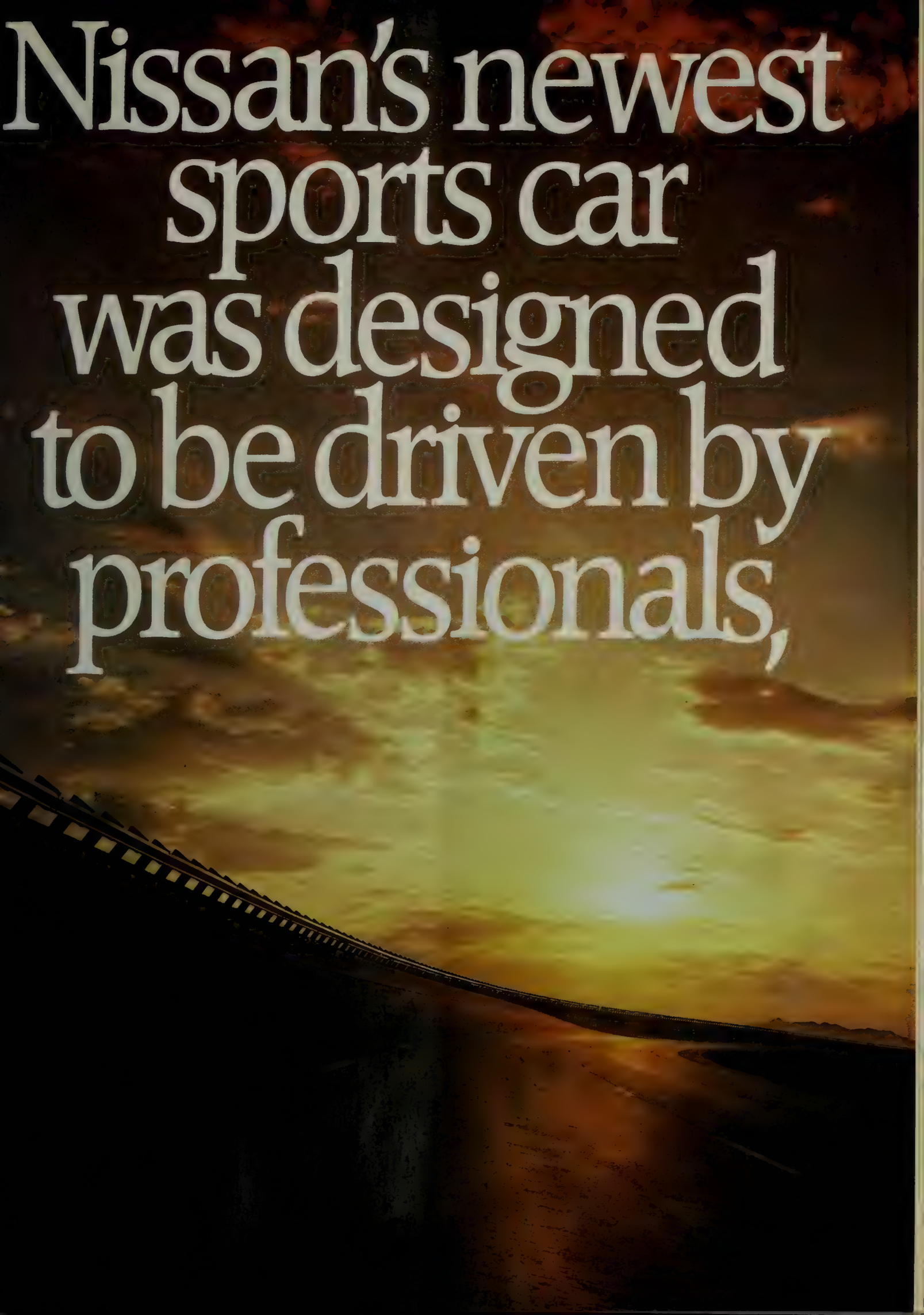
Twice bitten

Jan. 28, 1985

Three years ago FORBES cited Royal Silk as a small company (1987 sales, $40 million) on the rise. Founder Pak Melwani had found a niche in the growing mail-order business, peddling low-priced, imported silk women's clothing for less than department stores charged. Chastened by an unsuccessful foray into catalogs for sweaters and other items, Melwani said he'd stick to his knitting in the silk trade. FORBES thought Royal Silk's future was bright.

But Melwani failed to listen to his own advice. Last month Royal Silk filed for protection under Chapter 11, citing debts of $14.7 million and assets of just $4.5 million. The company lost money on an expansion into retail stores, and also spent heavily on a line of fragrances. The core catalog business is still doing well, and company officials vow to concentrate on that in the firm's restructured future.—**E.F.C.**

Nissan's newest sports car was designed to be driven by professionals,



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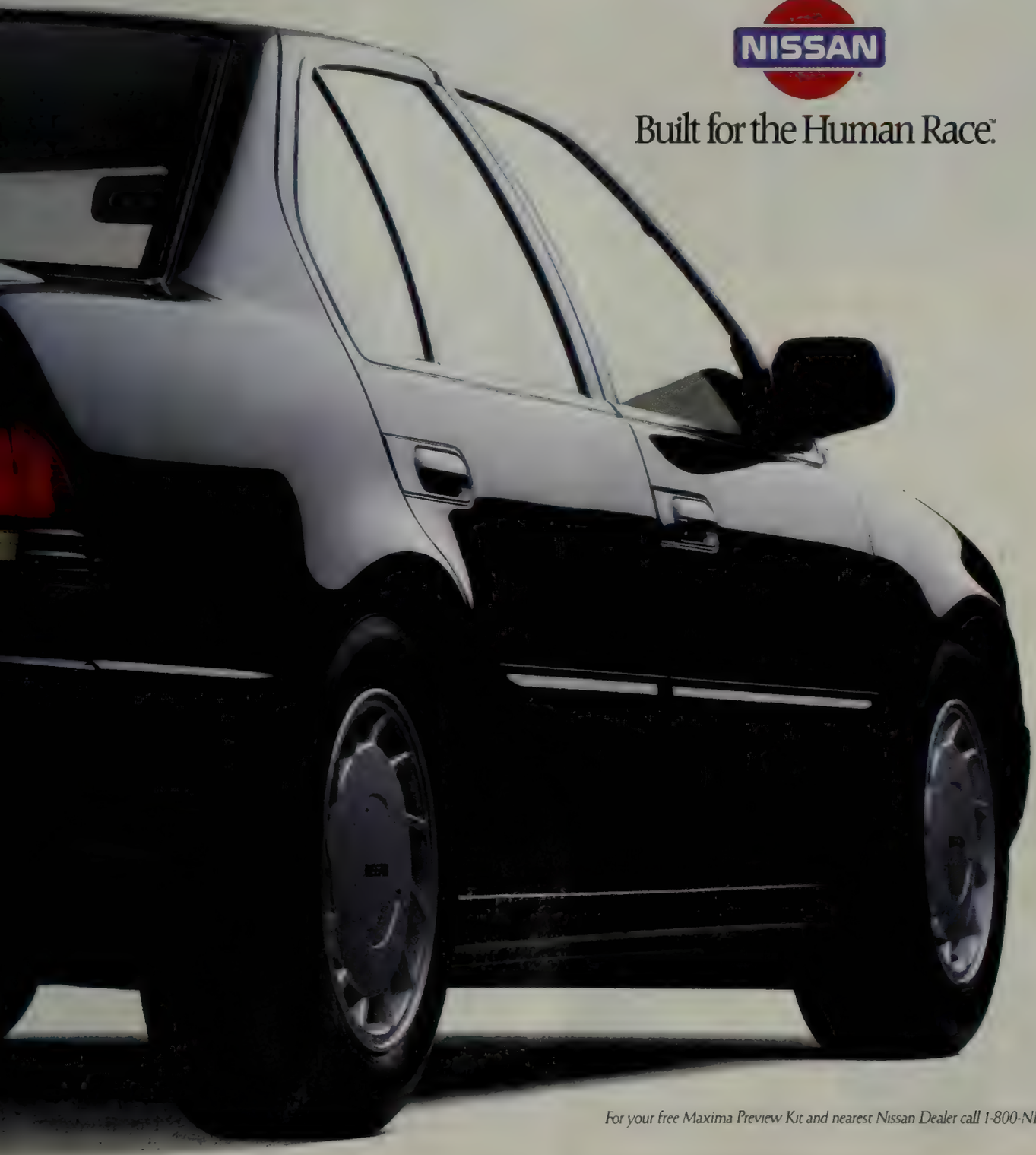

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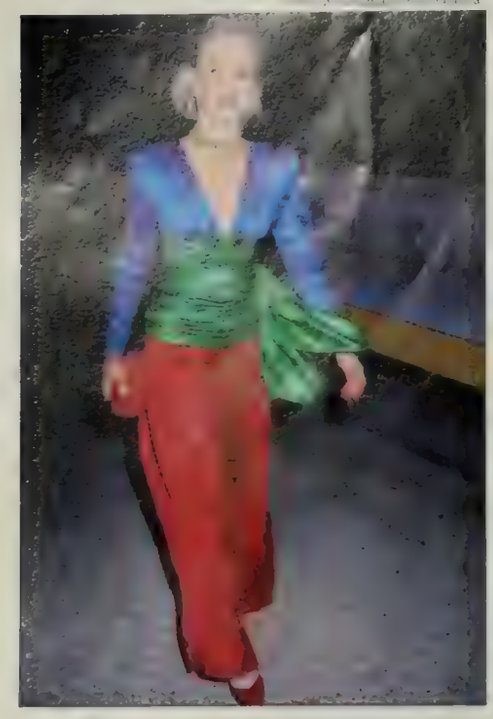
Edited by Gretchen Morgenson

Did Anne Bass get the short end?



Anne Bass
Stuck with a measly $200 million.

With all the hullaballoo about mergers, it's ironic that one of last year's biggest business deals concerned an unmerger, the big-bucks breakup of Sid and Anne Bass. In October, after 15 months of wrangling, the couple completed a settlement worth about $200 million, say Texas family-law specialists. That's big money, but some people might think Sid got off cheaply, considering he's worth $1 billion or so.

Turns out Texas' community property laws actually worked to Sid's advantage. Community property is split in half, but assets held outside the marital estate are considered separate. Sid held his interest in the family business before marriage, so that was kept out of the kitty. And though the marital estate is entitled to reimbursement for the "time, toil and talent" it lends to the tending of separate property, Sid's salary and dividends were deemed adequate compensation on the score.—Eric Schmuckler

Immunomedics wasn't immune

Johnson & Johnson's venture subsidiary, Johnson & Johnson Development Corp., owned a 9% stake in tiny Immunomedics, a Newark, N.J.-based medical testing concern, for several years. Last September Johnson & Johnson hired Goldman, Sachs to help sell its nearly 2 million Immunomedics shares. Goldman's people started working the telephones and sold the stock in mostly large blocks at $7 a share, just a shade under the market. Fidelity health and biotech funds ended up with 200,000 shares, while money bigs Mike Steinhardt and George Soros took down 250,000 and 300,000 shares respectively. The rest of it landed with a couple of banks and a brokerage house.

Immunomedics now trades around $4.50. Maybe the investment will work out in the long run, but if these supposedly smart investors are still holding the stock, they're sitting with nice paper losses.

All in the family

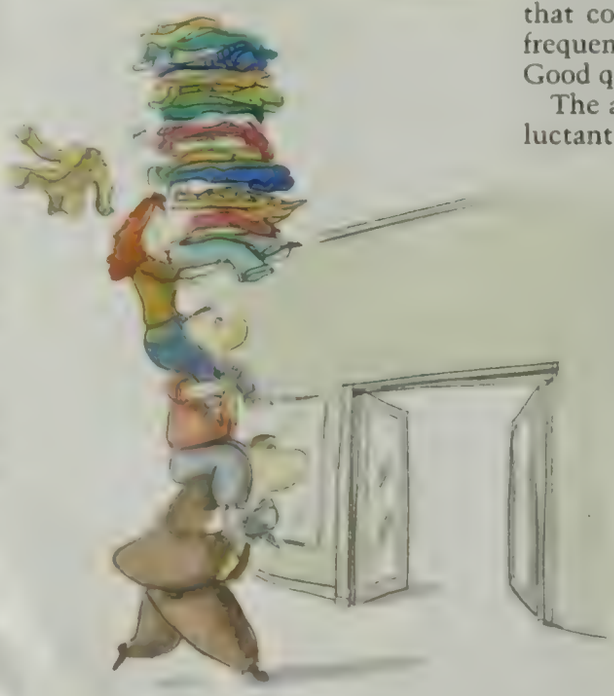
The Informer isn't easily shocked by the hosing investors so often get in initial public offerings. However, Designs, Inc., a retailer founded by Calvin Margolis and Stanley Berger, has blazed new ground. The $40 million (sales) company based in Chestnut Hill, Mass. was brought public in June 1987 by Kidder, Peabody.

Margolis and Berger cut themselves the usual nice deal: They took out a total of $10 million in cash and each still held 30.5% of the stock; continued to own the headquarters and leased it back; and paid themselves a $1.6 million bonus just before going public. But the founders weren't finished. Hear this:

Designs, which sells nothing but Levi Strauss merchandise in its 60-odd stores, has steadily added more than a dozen stores each year. It costs Designs an average $435,000 for leasehold improvements in opening a store. Competitors and analysts say at best that's a little on the high side, and at worst roughly three times what it costs chain stores to open comparable units.

Here's where the story gets interesting: An outfit called W.H. Scott has handled all the contracting on the new stores. W.H. Scott is owned by Fred Margolis, son of Chairman Calvin Margolis. The Scott firm has done $12 million worth of work for Designs in the last three years, with a 15% fee off the top. According to Joel Reichman, Designs executive vice president, the store costs aren't strictly comparable because his company puts a lot more work into its outlets than others do in order to increase "eye appeal." What's more, W.H. Scott no longer works for Designs.

Still, shareholders should only do as well as the founding families. Designs stock came out at $13 and now sells around $5.50.—E.S.



Pick a number

American Airlines has slapped a lawsuit on a pair of Tulsa residents, accusing them of bilking the company of frequent-flier miles. How much did that cost American, which invented frequent-flier programs back in 1981? Good question.

The airlines are understandably reluctant to attach a value to the frequent-flier miles they're on the hook for. That's because they may have to book outstanding frequent-flier mileage as a concrete liability when a special panel recommends new rules to account for this liability. (By one estimate, American alone could take a $300 million hit to assets.) As it stands, the airlines don't have to make any such provision on their books, and they are currently fighting proposed rules that would force them to start.

American's suit in federal court in Tulsa charges a father and daughter, Gayle and Irwin Schreier, with fraudulently hooking into the company's computer system and siphoning off 50 million free miles. The Schreiers have already been indicted by a grand jury on criminal charges. American's valuation of those miles will come out later in the trial, but John Holland, publisher of *Business Flyer* newsletter, figures it set American back at least $2 million in incremental expenses. The company threw in a racketeering charge, which can lead to a tripling of the damage award, and asked for minimum punitive damages of $10 million to boot.

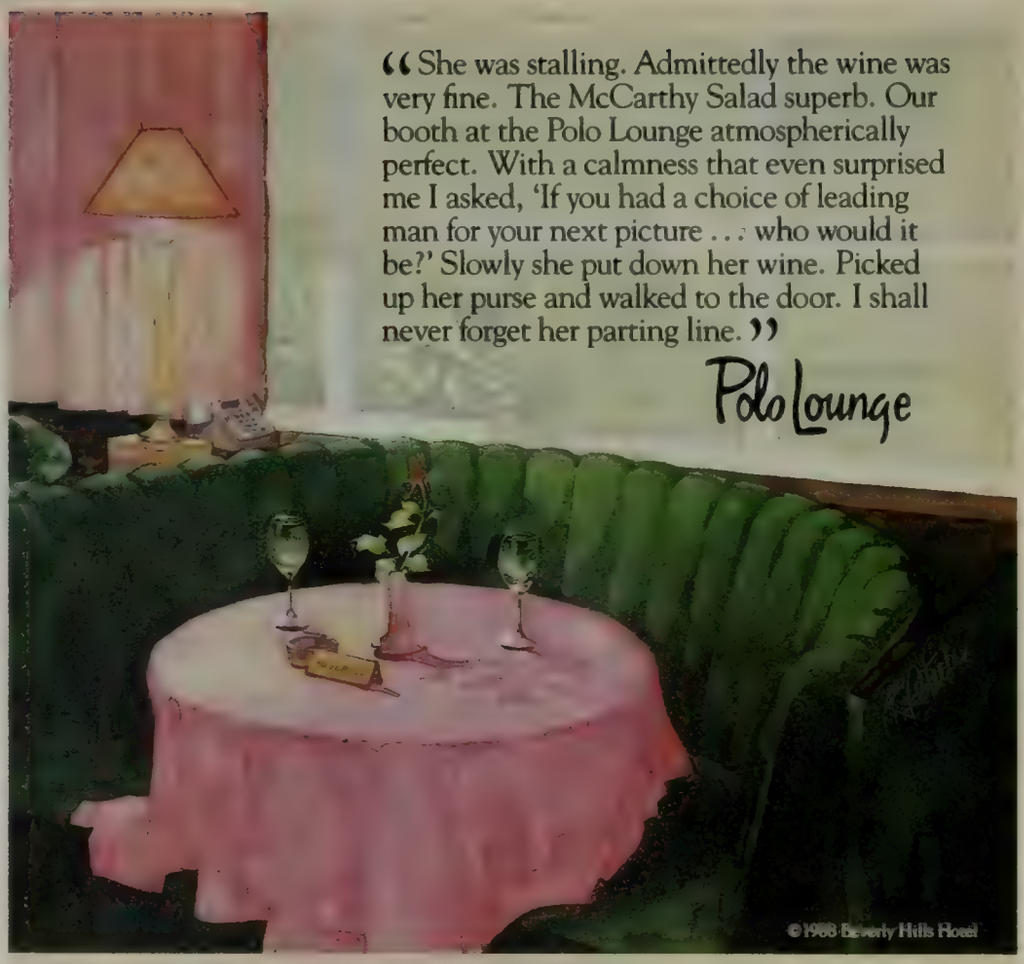
The judge in Tulsa asked American the value of all the frequent-flier miles it has racked up so far. American agreed to come up with a number, but only if that number would be sealed. Why all the secrecy? For competitive reasons only, maintains the company. But American presumably preferred not to make public its valuation, since that would be catnip to the accountants' panel studying the issue, and to the Internal Revenue Service, which would dearly love to tax frequent-flier bonuses.—**E.S.**

Rudy's other side

James Hamilton/Sygma

Rudolph Giuliani
A soft spot for sonnets?

Rudolph W. Giuliani, the U.S. Attorney who's prosecuting Drexel Burnham and Michael Milken, is one tough dude, the very image of the crusading DA. But what's this? On a Washington-New York shuttle flight recently, Giuliani was seen brandishing a book of Emily Dickinson sonnets. We don't doubt that Rudy likes poetry but, seeing that he aspires to higher office, could he be trying to soften that tough guy image?



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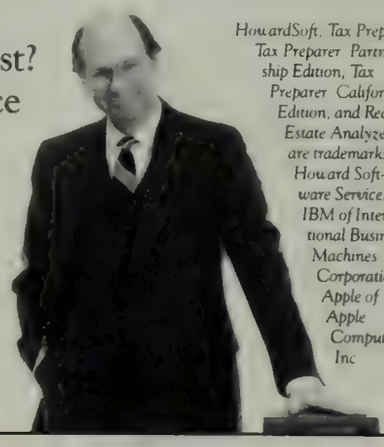

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Readers Say

Thumbs up

SIR: Re cover story on James Wolfensohn *(Dec. 26, 1988)*. In an era when every person entering Wall Street, and the firms themselves, have stressed the fast-buck-transaction approach to the business, it is a pleasure to find someone with class, compassion and an understanding of what investment banking is meant to be.
—William C. Douglas
Vice President,
Kirchner Moore & Co.
Denver, Colo.

SIR: My Lee Iacocca portrait moves over and makes room for James Wolfensohn on my capitalist heroes Hall of Fame (right next to Paul Volcker, the founding member).
—Joe Milam
Santa Rosa, Calif.

Citicorp's Reed: Tax gas

Re the issue of increasing the gasoline tax. If you contrast the impact on a normal family budget of a 25-cent increase in the price of gasoline with a 2% reduction in the cost of a typical ($50,000) mortgage, the reduction in the interest rate beats the increase in the cost of gasoline by six to one. This speaks to the tradeoff facing the nation in terms of the potential benefits of working out the fiscal issue that would come to the country through a reduction in interest rates.

The incoming Administration will face by far the best economic circumstances of any incoming Administration since the time of Lyndon Johnson. I make this comment because I believe we have an attractive tradeoff between fiscal and monetary policies. The circumstances for past Presidents were: Lyndon Johnson had good, maybe too good, growth of 5.3%, low inflation at 1.5% but high unemployment at 5.2%. By Richard Nixon's time, growth at 2.4% and unemployment at 3.5% were acceptable, but inflation at 5.6% was not. Gerry Ford faced a horrible deck of cards: Growth dropped to 1.3%, unemployment up to 8.5% and inflation at 9.8%. President Carter had decent growth at 4.7% but 7.1% unemployment and 6.7% inflation. President Reagan inherited slow growth of 1.9%, high unemployment of 7.6% and high inflation of 9.7%. Contrast that with the next Administration and I think you will concede that the incoming President should not complain.
—John S. Reed
Chairman,
Citicorp
New York, N.Y.

See Fact and Comment, page 19—ED.

More on schools

SIR: Your editorial *(Fact and Comment, Dec. 12, 1988)* is a mighty boost at a critical moment. I am quoting it like mad!
—John Cardinal O'Connor
Archbishop of New York

SIR: Your comment should include reference to the second-largest system of religious schools in the nation operated by the Lutheran Church-Missouri Synod.
—Theodore Eisold
Senior Pastor,
Immanuel Lutheran Church & School
Palatine, Ill.

Yo Forby

SIR: Re Fact & Comment *(Oct. 31, 1988)*. Enough of this "Gorby" stuff! I find no reference in your column to Reagy, Nixy, Thatchy, Mitty or Kohly.

"With all thy giving give respect."
—James Featherston
Norman, Okla.

Smooth succession

SIR: As the most senior of the currently active partners involved in the process of picking Jim Farley's successor at Booz, Allen, I was somewhat offended by FORBES' recent article *("Gladiators' ball," Dec. 26, 1988)*. Contrary to the impression created by your article, the process had the support of the vast majority of the partners and was in many ways an extension of our "going private" ten years earlier. Chairman Mike McCullough was certainly not an "unknown" to his peers. His principal strength, in the view of his partners, was not necessarily his success as a manager, but rather the exceptional spirit of partnership, collegiality and support he had built up in the segment of Booz, Allen he was then leading.

The firm under Mike's leadership is in the middle of another alltime record year. I do not know of any of our partners who were directly involved who think Jim Farley "copped out." The firm has never, in its 75-year history, been stronger.
—John B. Rhodes
Vice Chairman,
Booz, Allen & Hamilton Inc.
New York, N.Y.

L

SIR: Liberalism is neither intellectually bankrupt nor the natural enemy of the enlightened businessman *("Why liberalism is now obsolete," Dec. 12, 1988)*. Liberalism still has much to contribute to the economic and spiritual health of this country. Although it is currently unfashionable to wear the liberal label, anyone too quick to write its epitaph forgets that the pendulum swings both ways.
—Wayne Mones
Staten Island, N.Y.

SIR: "The natural sciences, like the economic sciences, produce hypotheses which are accepted so long as no better one comes along, and so long as no contradictory evidence comes along." This quote from Milton Friedman highlights the bankruptcy of current economic thinking. The "contrary evidence" to which Friedman refers has been abundantly available for many years without causing any abandonment whatsoever of the classic "equilibrium theory" to which Friedman is so attached. Economics is a field of study in desperate need of scientific discipline.
—Wavell F. Cowan
Moretown, Vt.

Satisfaction

SIR: Re Fact and Comment *(Dec. 26, 1988)*. You supposed that if liberated ladies would start lighting up cigars, maybe we who love 'em could use them more often in more places. Who are you referring to, the cigars or the ladies?
—Ronald M. Schultz
Northbrook, Ill.

SIR: Was that the liberated ladies?
—Teresa S. Kearns
Norwalk, Conn.

SIR: The ladies or the cigars?
—Patrick J. Foy
Roseland, N.J.

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Rain. It's as much a fact of life in England as driving on twisting roads through ancient villages. Thus, it's not surprising that long ago, Jaguar pioneered the use of water-dissipating four-wheel disc brakes. It might also explain why the Jaguar XJ6 is equipped with one of the world's best anti-lock (ABS) braking systems.

As with other anti-lock systems, Jaguar's ABS can help the driver maintain steering control by preventing wheel lock-up when braking hard on a road that is evenly dry or slick.

But to help the driver cope with *inconsistent* traction situations, the Jaguar ABS system incorporates yaw control. Regulated by microprocessor, this ingenious feature can help the driver control the natural tendency for a vehicle to pull right or left—"yaw"—under hard braking when traction differs widely from side-to-side. As a result, the XJ6 can help you make straighter, surer stops even when one side of the car is on dry road and the other is riding on a wet or slippery surface.

Maybe the English didn't really invent rain or challenging driving conditions. But it is comforting to know that a car with all the elegance and handcrafted luxury of the Jaguar XJ6 is also designed to be far more than a fair-weather friend.

To test drive the Jaguar XJ6 and for information on Jaguar's extensive three year/36,000 mile warranty, see your dealer. He can provide details on this limited warranty, applicable in the USA and Canada, and on Jaguar's uniquely comprehensive Service-On-Site℠ Roadside Assistance Plan. For your nearest dealer, call toll-free: 1-800-4-JAGUAR. Jaguar Cars Inc., Leonia, NJ 07605

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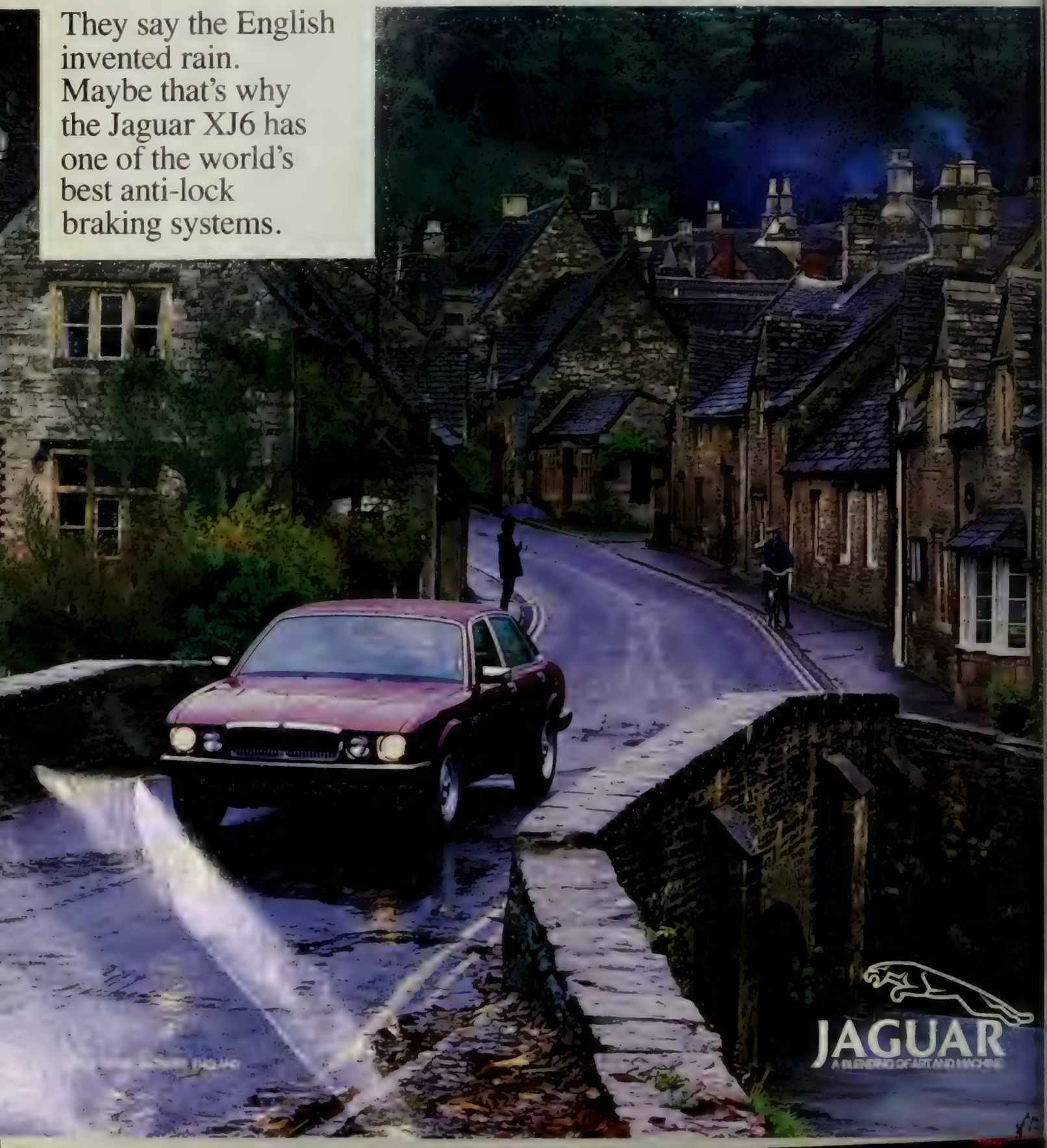


Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

LET'S HOPE IT ISN'T TOO LONG BEFORE PRESIDENT BUSH'S LIPS

thaw out from campaign rhetoric freeze.

To have America powerfully prepared to lead or simply meet the immense economic challenges that are—happily—replacing military confrontations, we have to do one simple, enormous thing swiftly—not only reduce the breathtaking $billions we're still piling on to the national debt, but start to reduce the debt itself.

Over $200 billion of our taxes are now being spent merely to pay the interest due. A good hunk of it goes to the Japanese, who are increasingly turning some of the paper we give them into the purchasing of U.S. industries, services, real estate as well as R&D.

Successfully confronting our spiraling debt would reduce interest rates, which alone would save Uncle Sam at least $25 billion on the $2.5 trillion we owe. If we don't cut the Gordian knot of national debt, we will be noosed in competitive confrontations with the European Common Market, Japan and other nimble, aspiring, perspiring lands.

Americans are ready to buy one tax in particular if its revenues are legally straitjacketed so it can be used only to reduce the national debt. That tax is on gasoline, and it shouldn't be a wimpy sum.

Each cent of gas tax will produce $1 billion in revenue. A 50-cent-a-gallon "enhancement" in the present 9-cent federal tax would produce $50 billion to reduce the federal deficit. The effect would be instantly reduced interest rates, promptly sparking significant economic expansion.

And even adding 50 cents to our present low gas cost would still leave us paying about one-third of what the motorists of Europe and Japan pay per gallon.

Fuel economy, which seems to have passed out of our consciousness these days, would be stimulated.

As for the regressive aspects, tax rebates could be spelled out for the unfairly distressed.

Knocking our national debt galley-west would virtually restore our world economic leadership overnight.

May it not be long before President Bush's lips recover from campaign rhetoricosis.

AND WITH OUR DEBT ON THE TOBOGGAN, THE PRESIDENT CAN

take some of the dough saved by budget cuts, which he is determined to make, to carry out other of his campaign pledges, such as:

- an increase in Head Start funding to open the preschool program to all eligible four-year-olds
- a $500 million merit schools program
- increased funding for progress comparisons of teachers and students
- tax-free interest on "college savings bonds"
- $50 million to encourage education experimentation
- reduce the tax rate on capital gains
- tax-free individual savings accounts up to $1,000 for those earning less than $50,000 annually
- a tax credit for child care
- aid to the homeless
- the expansion of Medicaid
- more federal prisons
- the improvement of air and water quality

IF YOU'VE MONEY TO BUY STOCKS, IT'S DUMB—AND COSTLY—NOT TO

Individual investors by the tens of thousands seem to have been so shaken up by the incredible 506-point drop in the Dow Jones in 7½ hours 15 months ago that they have given up buying stocks.

To put long-term savings—money one doesn't have to have for next month's car payment, house mortgage or tuition—into the "safe havens" of bonds, or money funds, or short-term CDs, or some other form of "anything but stocks" may provide the still shell-shocked with some relative comfort.

But the dollars-and-cents cost of that wee bit of mind peace is almost sure to be very high. Reports the *Wall Street Journal,* "Over the 62 years for which records are available, stocks have far outperformed bonds and short-term money funds. In the 1926-87 period, stocks delivered an average annual return, including dividends, of

9.9%, far outpacing the 4.9% for bonds and the 3.5% for money funds. After subtracting 3% average inflation, stocks' real return of 6.9% dwarfs the 1.9% for bonds and 0.5% for money funds."

The simple fact is that the overwhelming number of securities on the New York Stock Exchange are appreciably underpriced. Which is why countless times acquirers, raiders, inside buy-outers offer 50% to 75% and sometimes even 100% more than the listed selling price to get their hands on 'em.

As for 1987's Monday Blackout, if you didn't get through to your broker to sell, and didn't sell, you haven't actually lost any money yet.

Sure, you would have made a bucketful if you had sold on the Friday before the Monday and had bought on the Tuesday after the Monday, but since the likelihood of being one of those nonexisting diviners is nonexistent, dwelling on what might have been is an enervating waste of time and mind.

Picking out and owning a piece of some of the companies that constitute the economic muscle of America is a wise thing to do with what you've made and don't need tomorrow or the next month or the next year.

Don't try to make money as a trader in stocks if you're not a trader in stocks (many of them don't either).

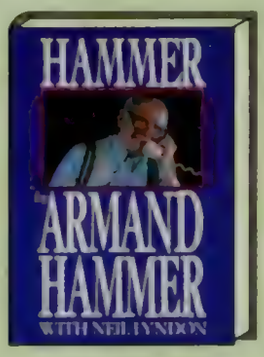
Don't entirely sit out the market.

If you're a long-term investor today or yesterday or the day before, you have been and will continue to be far better off.

ARMAND HAMMER, 90, WHO DOESN'T HAVE TIME TO RETIRE OR DIE

writes in his bestselling autobiography, *Hammer* (Putnam, $22.95):

"I helped my friend Malcolm Forbes to make one of his own idiosyncratic flights in China. Malcolm, publisher of FORBES magazine and one of the most unabashed hedonists and capitalists in the world, has traveled the world in or upon the two conveyances which he prizes above all—motorbikes and hot-air balloons. You wouldn't get me into or onto either of those things for all the Fabergé eggs in Malcolm's splendid collection. Nevertheless, Malcolm is an ardent advocate of the principle that people should get their fun in life any way they choose. He chooses motorbikes and hot-air balloons. Who am I to argue?



"In 1980, when Malcolm wanted to take a party of motorcyclists on a tour through Russia, I helped him to get permission and visas. In 1982 he conceived a yet more implausible fantasy, to take a motorcycle gang, equipped with hot-air balloons, across China. He couldn't get the Chinese to take him seriously—can you blame them? Richard Nixon wrote a personal appeal to Deng Xiaoping. Nothing happened. Malcolm asked former Secretary of State Henry Kissinger to see what he could do. Again, nothing.

"Finally Malcolm brought his notion to me. I didn't bother to try to talk him out of it. Reason didn't enter into it. As a personal favor to me, the Chinese agreed to let Malcolm have his way. However, I had to go all the way to Deng Xiaoping.

"When Malcolm arrived with his crew in Beijing, I hosted a dinner for him at the Beijing Hotel, where fifteen courses were served to hundreds of guests and Malcolm gave presents to Premier Zhao Ziyang. These included a motorcyclist's vest and a scarf inscribed with Malcolm's motto, Capitalist Tool. Zhao smiled gracefully through his bemusement.

"When I got back to the State Guest House after that dinner, a message was waiting for me from President Zia of Pakistan. He was in Beijing for meetings with Deng. He wanted to see me. Even though it was late at night, I called him back and he asked if I would come to his guest house. I thought Malcolm might like to come and meet Zia, Pakistan being just about the last territory on earth over which Malcolm has not wafted or ridden. Given the faintest chance to float through the air down the Khyber Pass or gun his engines in the streets of Peshawar, I knew he'd jump at it. He did. We set off together in my limousine.

"The car broke down on a deserted street, well past eleven p.m. We might have been there for hours if rescue had not come in the shape of an old bus rattling along with a load of night workers. I jumped out in the road and flagged the bus down. Our interpreter explained our position and asked the driver to make a diversion and take us to Zia's guest house.

"We climbed aboard, easing into the cramped spaces between the tightly packed standing passengers. I hadn't ridden in a bus for more than 60 years. I thought it made an interesting change in Beijing, in the middle of the night, on the way to see a President. Malcolm and President Zia hit it off, and Malcolm got an invitation to bring his motorcycles and balloon to Pakistan.

"Deng Xiaoping also helped me to make arrangements for the flight of some creatures even more exotic than Malcolm Forbes, when he cleared the way for me to bring Chinese pandas to the Los Angeles Olympics in 1984. . . ."

I'LL BET ON IVANA

Donald Trump's most towering achievement isn't Trump Tower or Trump casinos or any other of his dazzling great things and doings.

It's Ivana. She's not only a wife who zestfully works at being one; she's not only a mother who sensibly but sensitively dotes on her good kids; she's also a dynamo at the executive desk.

In the toughly competitive casino world, she turned a middling one into a triumphant one.

Gerardo Somoza/Outline Press

Now she's taken up an extraordinary challenge—to make New York's famed old Plaza into a world-class Five Star hotel. Given wage scales of this country's hotel unions and their regulations, that's a daunting undertaking.

But anyone who knows Ivana can bet she'll get that immensely tough job done, too.

Besides, she's got a not-so-secret weapon in her armory—*The* Donald.

I CAN'T RESIST SHARING THESE TWO ANECDOTES

from a book we're working on about what's happened to the offspring of very famous people. *What Happened to Their Kids?* reveals whether being the son or daughter of a Famous One is a blessing or a burden or both or neither. From this work in progress, I can't resist passing on two delightful bits—

The son of Charles Merrill of Merrill Lynch renown decided in high school that he was a poet. Later, while at Amherst College, he said his father "wrote to my professors and asked them if I should be allowed to make a career of poetry. When they said that I should be encouraged to do so, he accepted the idea, suggesting that I go about it in the most serious way possible." That, James said, meant "I should rent an office in Manhattan and go there every morning like a businessman."

Otto von Hapsburg, heir apparent to the defunct Austro-Hungarian throne, in 1988 was asked if he was going to see the Austria-Hungary soccer match. "No," replied the head Hapsburg. "But how interesting. Tell me, whom are we playing?"

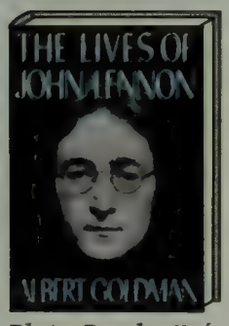
YOU'RE WANTING

if you want not.

IF IT'S TO DIE OVER

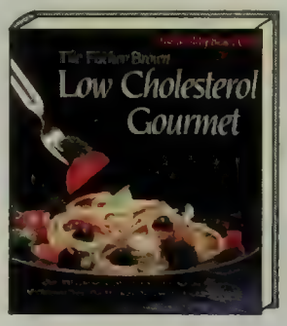
forget it.

BOOKS



● **The Lives of John Lennon**—by Albert Goldman (William Morrow & Co., $22.95). For somebody with a tin ear for rock 'n' roll, I found this 700-page dissection of the Icon of the Rock Age almost unputdownable.

Excerpts: *"John became a mess, almost overnight, and all because of Elvis Presley" [says his Aunt Mimi]. "He would even stand in front of his bedroom mirror with the guitar pretending to be that man Elvis Presley." The impact of Elvis on John's life was total. . . . John Lennon's sudden disillusionment with his political guru followed the pattern established by his sudden disillusionment with his religious guru, his psychiatric guru, and all the other saviors in whom he had placed his faith. A man perpetually in search of help, John focused his quest instinctively on charismatic father figures—precisely what the fans did to him, investing him with the wisdom and spirituality that they were seeking. . . . John took his identity from the company he kept. Thus the real John Lennon was only as real as his latest infatuation and always a man who was up for grabs. . . . The photos of John Lennon taken during the* Sgt. Pepper *sessions are disquieting. Here is a young man who has suddenly aged about 40 years. The eyes behind his granny glasses look like those of dead fish. Miles, a frequent visitor to the sessions, explained: "John set out to destroy his ego. He made a good job of it." Ego death, the product of heavy doses of LSD and the* Tibetan Book of the Dead, *could be the reason for John Lennon's sudden metamorphosis into the Superannuated Man. Such drastic changes were to become commonplace in the Sixties as the rock scene degenerated into the drug scene.*



● **The Fischer/Brown Low Cholesterol Gourmet**—by Lynn Fischer and W. Virgil Brown, M.D. (Acropolis Books Ltd., $19.95). It sounds like a contradiction in terms to me, yet FORBES' New York chef Chris Long allows that these dishes "are very appetizing, well thought-out and, of course, healthy." But not everyone's dish—unless you *really* want to try living *ad infinitum.*

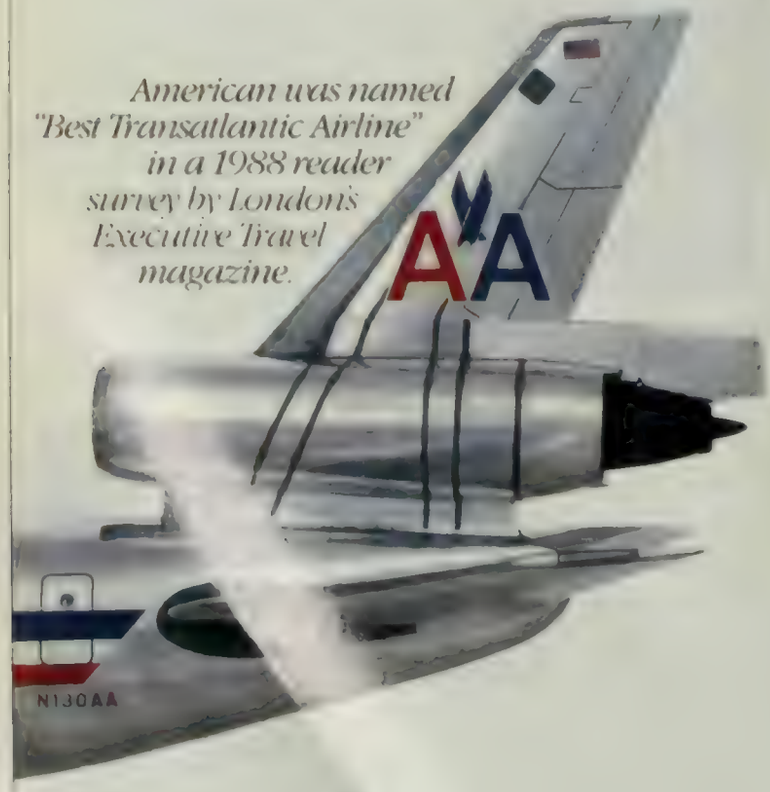
● **Separated at Birth**—by the editors of *Spy* (a Doubleday/Dolphin Book, $6.95). Hilarious pictorial pairings by the maestros of the most unlikely look-alikes. The editors of *Spy* have a ball making these matings which they say have become the magazine's "widely popular feature."

Oscar Wilde

Fran Lebowitz

*American flies daily to London, Manchester, Paris, Frankfurt, Munich, Duesseldorf, Zurich, Geneva and Madrid. In May, we'll begin daily service to Brussels, Stockholm, Hamburg and Lyon.**

American was named "Best Transatlantic Airline" in a 1988 reader survey by London's Executive Travel magazine.



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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Sweetly Burn

Democratic leaders say that new taxes may be critical to easing the federal deficit but that the issue demands presidential leadership. And so the Democrats smile and wait, a political version of sitcom marriage in which the wife tells the husband that his chronic lateness is no problem, then sweetly burns the dinner.

—Robin Toner, *New York Times*

Fly, Drive or Sail

"Competitive strategies" would exploit U.S. strengths—for example, in technologies such as stealth and precision guidance—and deploy them against Soviet weaknesses. To be useful, the concept requires more spending on things like pilotless cruise missiles, multiple rocket-launchers or exploding drones. This horrifies the Pentagon's generals because it also means spending less on the traditional things they can fly, drive or sail.

—*Wall Street Journal* editorial

Da Pic, Camera Nyet

Pan Am's Alan Loflin went to Moscow to get permission to make p.r. photographs of his airline's flight landing at the airport. After many delays and problems, Loflin won an okay to photograph. While waiting for the plane, an angry guard came toward him on the ramp yelling and screaming, "No! No! No!" Alan offered his permit, but the guard continued to yell. Then he went away to telephone. Returning, the guard handed Alan the permit, saying, "Please, is okay."

Loflin asked, "What was the problem?" The guard said, "Okay for photograph. But permit does not say can have camera!"

—Liz Smith, New York *Daily News*

Free-Market Rest

I don't think you can ask the free market to make sure that airplanes are working or that the cockpit crew is rested.

—Representative Dan Glickman (D–Kans.), who headed a House panel that recently concluded that deregulation had jeopardized public health and safety

U.S. Joyride

Detroit says consumers want bigger, less efficient cars. Industry resistance to stiffer [fuel economy] standards makes clearer than ever the need for a hefty gasoline tax.

The Administration argues that further gains in fuel efficiency will result from "market forces." But market forces alone do not reflect the national costs of remaining dependent on the whims of foreign producers.

That's why a gas tax makes sense. A 50-cent-per-gallon tax on gasoline, phased in over several years, would likely make fuel-efficient cars more appealing, and help close the budget deficit as well. Indeed the yield would be so great that the impact on consumer spending would have to be considered, perhaps balanced with a system of tax rebates. The federal tax is 9 cents now, and state taxes average about 15 cents. The U.S. and Canada are the only big Western countries whose tax is less than a dollar.

—*New York Times* editorial

I've not only been screened, I've been sifted.

—John Tower, commenting on the long background check made on him before he was named Secretary of Defense

Economy Chemo

High interest rates and slow growth reduce inflation in the way that chemotherapy works on cancer. It kills the good along with the bad cells and makes the patient dreadfully sick. Physicians, to their credit, are trying to find therapies that will kill cancer cells without killing the patient. But America's economic policymakers have not made the same intellectual leap.

—Paul A. London, economic consultant, in the *New York Times*

Right from the Start

One political commentator got it right from the start, when he wrote last winter—*after* Dole's win in Iowa—that Bush was still the man to beat and that none of the Democratic aspirants could win in November, absent a recession. The analyst was Richard Nixon, writing in the London *Times*.

—Edwin Diamond, *New York*

Chefs Went Nuts

In two months, Ivana Trump managed to assemble perhaps the strongest hotel team in the history of New York City. Most who've followed Ivana's call simply seem entranced by her promise to make the Plaza the best hotel in the world. People love to sign off on a vision. "When she had the Liz Smith dinner at the Plaza," remembers one guest, "Ivana paraded chefs around the room after the meal as if they were European royalty. The chefs went nuts over that."

—*7 Days*

Drawing by Weber, ©1988 The New Yorker Magazine, Inc.

"I told him I wouldn't kill him to try to be nice once in a while, but I was wrong."

All of these securities having been sold, this announcement appears as a matter of record only and is neither an offer to sell nor a solicitation of an offer to buy these securities in Hong Kong Telecommunications Limited.

877,500,000 Shares

Hong Kong Telecommunications Limited
香港電訊有限公司

Hong Kong Offering

607,500,000 Shares

The undersigned acted as underwriters in connection with the Hong Kong Offering.

Price HK$4.55 Per Share

Prudential-Bache Capital Funding

Baring Brothers & Co., Limited

Wardley Corporate Finance Limited

United States Offering

6,024,793 American Depositary Shares
Representing 180,743,790 Shares

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Price US$17.50 Per American Depositary Share

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International Offering

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In connection with this offering the sellers of the shares of Hong Kong Telecommunications Limited were advised by the undersigned.

Cable and Wireless (Far East) Limited
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Prudential Asia Capital Limited

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December 19, 1988

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Will the health care developments of the future have more to do with saving money than with saving lives?

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While a "new" concept to most companies, case management has been in practice at the CIGNA companies for over 17 years. In fact, we're the top provider in the U.S. for medical management and rehabilitation services.

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Striking the right balance between managing costs and maintaining high quality health care. It's one more example of CIGNA's commitment to personalized service to business.

CIGNA

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

THERE IS A BETTER WAY

Wall Street's latest financial innovation, Shearson Lehman's so-called unbundled stock units, is a response to the undervaluation of American equities.

Factor out inflation, and stock averages today are about 30% lower than they were in the mid-1960s. One particular villain is the tax code, which favors debt over equity. The double taxation of dividends is a depressant on equity prices; the maximum federal tax on interest is 34%; on dividends, almost 60%. The too-high capital gains tax also hurts stock values. Result: Companies are vulnerable to takeovers.

Shearson's Financial Alchemy

The new plan cuts corporate taxes, but raises many questions.

— *New York Times*

A few years ago leveraged buyouts performed a vital economic purpose in restructuring companies and in making managers more accountable. Today the impetus for most LBOs is not efficiency and productivity, but arbitraging the difference between the cost of debt and equity.

The Shearson innovation is a clever, complicated way around that disparity. The Shearson product splits a share of common into three parts: a deep-discounted 30-year bond, which pays interest equivalent to the current dividend on the common; an unusual preferred stock that will pay a dividend equivalent to any future increases in the dividend of the remaining common shares; and a 30-year warrant to buy the company's stock at a set price. The goal of the complex plan is simple—virtually eliminate tax payments to Uncle Sam, thereby enabling investors to enjoy higher values. (Sara Lee, for example, will save $1.1 billion over 30 years.)

Interest, a tax-deductible expense, will be substituted for current dividends, which are not. Even bigger savings will come from that discounted bond, which will be redeemed in 30 years. Say the redemption price is $100 and the current price is $15; a company can deduct as an expense that $85 difference over 30 years and pocket the savings. (Individuals should not own the bonds; *they* would have to pay tax on those corporate deductions even though they don't receive this money for 30 years. But there is no such liability for tax exempt pension funds, Keoghs and IRAs.)

Will this unbundling of common stock, or some variation of it, work? In time, yes, as investors become accustomed to the new pieces.

James Colburn/Photoreporters

Dan Rostenkowski

Trying to restrict the corporate deductibility of interest from LBO-type deals would be counterproductive, enriching tax lawyers and accountants as they concoct maneuvers around the ban. The ban would favor foreign companies, which would not be similarly restricted.

What should the House Ways & Means Committee and its chairman, Dan Rostenkowski (D–Ill.), recommend to Congress?

Tax Cuts Work

First, reduce the capital gains tax to 15%. Such a cut would gear investors toward long-term growth, unlock depressed capital values and stimulate greater economic activity. The halving of the capital gains tax in the late 1970s and early 1980s helped trigger a bull market; revenues from the tax more than doubled.

Second, there ought to be some relief from the double taxation of dividends. Other countries, including Germany and Britain, provide a variety of workable models.

Would these reforms increase the budget deficit? As the Shearson innovation shows, Uncle Sam will eventually lose revenues anyway. Four major companies have already agreed to convert a portion of their common stock into this new product.

Actually, with sensible changes in the tax code, those losses will be quickly translated into substantial revenue gains. We have already seen what slashing the capital gains levy did for increasing business activity.

During this decade, the U.S. economy benefited mightily from reduced tax rates. The principle still holds.

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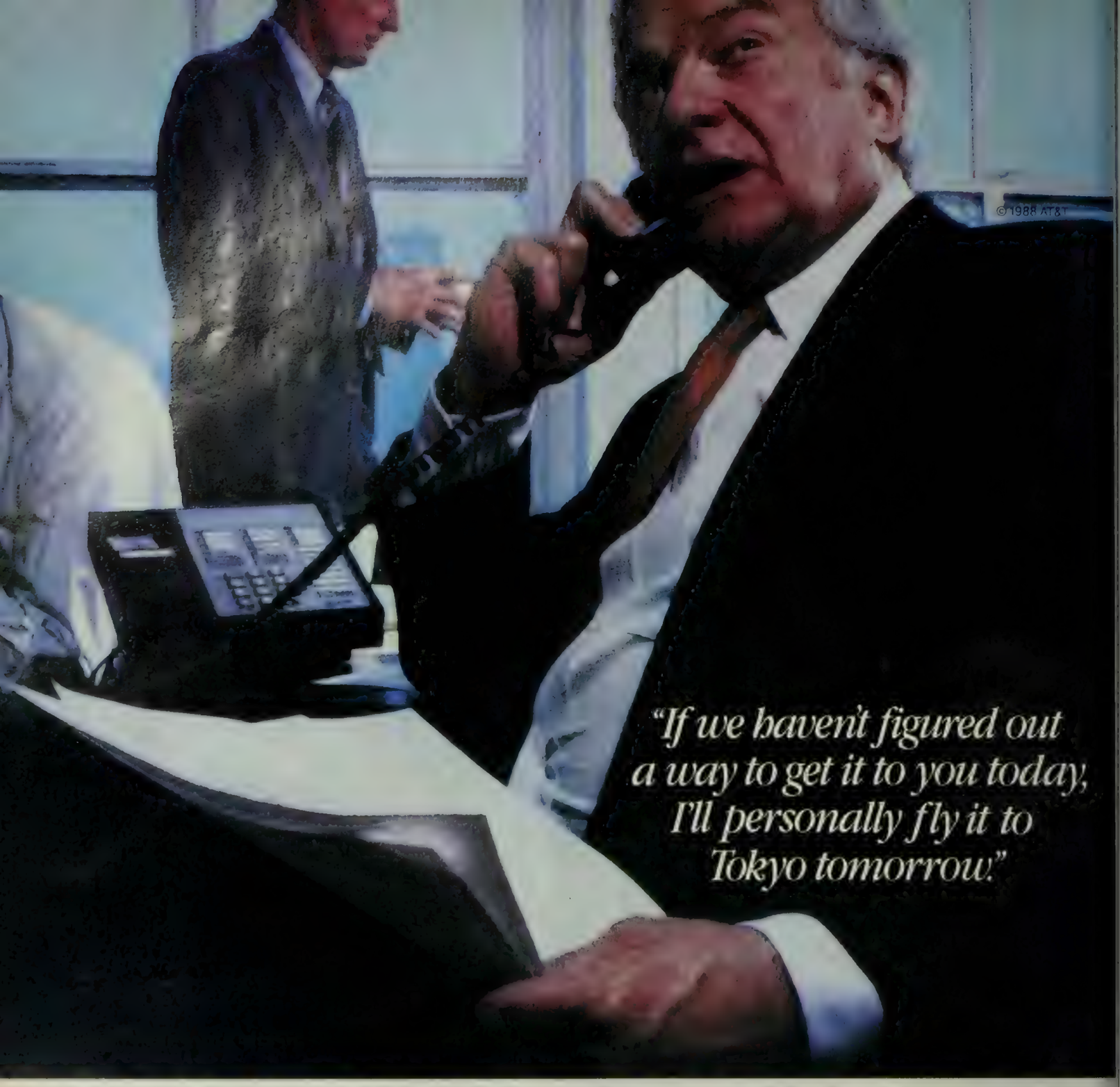

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Commentary
on Events at Home and Abroad
By Caspar W. Weinberger, Publisher

WHY CAN'T WE CUT THE DEFENSE BUDGET?

There are several answers. First, we already have. Over the last four years, defense has sustained cumulative 11% negative real growth. The fiscal year 1989 defense budget, adjusted for inflation, is $35 billion lower than 1985's.

Another answer is, we can cut. In fact, it is very easy. Just cut everything, from personnel to spare parts to weapons systems, and your defense budget is cut.

And then there is a third answer, very popular with people who like to be considered defense and security experts and who need a plausible-sounding rationale. The answer goes like this: We must cut our commitments abroad; if we had fewer commitments, we would need less defense. The latest proponent of this nostrum is the Comptroller General of the U.S., Mr. Charles Bowsher. In a long list of unsolicited advice to the President-elect, Mr. Bowsher said:

"In defense, it is already evident that the budget cannot finance all the weapons systems now being developed while also maintaining the present force structure with adequate readiness and sustainability. . . . These adjustments need to be accompanied by a thorough reexamination of our international commitments and our defense goals, strategies and force structures."

The real fallacy in all of these quick, wrong answers was rather neatly, but unwittingly, summed up recently by two members of the Congressional Budget Office staff. Testifying before the National Economic Commission on the staff-proposed question, "How can we cut the defense budget?" these two aides offered the usual long list of weapons to be cut, prior orders to be canceled, reductions in many of the 4,800 items in the defense budget. They included an astonishing and revelatory sentence in their presentation: "The question of defense needs is beyond the scope of this paper."

One Commission member pointed out that considering the defense budget without considering defense needs is like constructing a Social Security budget without any facts as to the number of old people to be paid.

The fact is that we have to consider defense needs in the light of the world situation and the size and capability of the military forces of the Soviets, our principal adversary. Whatever changes may be going on in the Soviet Union, they do not include any real reductions in their military capability. Quite the contrary. They continue to outspend and outproduce us in virtually all types of new and effective weapons. Their promised small reductions will not reduce their real and overwhelming offensive military strength. If the Soviets destroyed half their tanks, they would still have twice as many as we have.

During the last 18 years, their defense investments have exceeded ours by $510 billion. Naturally, they have acquired far more than we have. For the last ten years, Warsaw Pact countries have outproduced the NATO nations: 31,400 tanks versus 11,000; 8,500 tactical aircraft versus 6,400; 31,500 artillery pieces versus 5,800. And despite soothing rhetoric from Mr. Gorbachev, the Soviets continue to add great growth and strength to their military.

So why are our defense needs less now, and why are needs omitted from facile presentations as to how we can cut our defense budget?

Equally silly suggestions that we tailor our security commitments to the size of our deficit rather than to our security needs should be quickly rejected.

On Aug. 18, 1983, the then Defense Secretary was asked about this proposal (so it is clear that the Comptroller General is not all that innovative a thinker), and the answer (in the form of a question) then is just as valid now: "Which of our commitments should we give up? The defense of Japan, or Korea, or Europe, or the Mideast with its oil fields, or the defense of the continental U.S.?"

Isolationists, who probably would agree to some of the above reductions, forget that the very best place to defend the U.S. is from outside, not inside, our borders. And it is no answer to say our allies should do more. We all should do more, in view of the constantly increasing military power of the Soviet Union. Our threatening to do, or doing, less will not induce allies to do more.

The real question is not "Why can't we cut our defense budget?" but "Should we?"

The answer to that depends on how much, and whether, we still value our freedom and the peace that comes only with strong military forces, forces we cannot secure by balance-sheet-oriented cuts that ignore our defense needs.

"Just another brake job? Not to the guy who owns this car. Not to me, either."

"You learn real fast in a GM dealership, behind every brake job there's a person. Someone who depends on these wheels to get around town, go on vacations, take the kids to school. And that person brought their car to this dealership because they wanted these brakes done right. With genuine GM parts. The kind this General Motors car was designed to use.

"Just another brake job? There's no such thing in my book."

Stephen V. Thompson

Stephen Thompson
Mr. Goodwrench Service Technician
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Mr. Goodwrench

It's not just a car... it's your freedom.

Edited by Howard Banks

SECOND THOUGHTS ABOUT IRAs

IRAs significantly increased net U.S. savings

IRA SAVINGS FROM 1982 TO 1986, THE PERIOD when IRAS were being officially encouraged, were largely *new* savings investments, according to two studies by the National Bureau of Economic Research.

This flies in the face of conventional wisdom, which holds that these Individual Retirement Accounts were almost all a transfer of existing savings and, therefore, mostly a shelter for wealthier taxpayers.

The conventional view was used by Senator Bob Packwood and Representative Dan Rostenkowski to justify their curbing of the tax break on IRAS in the 1986 tax reform. Their real reason was to recover $10 billion in tax revenue that IRAS cost the Treasury.

The case that IRAS worked well is made more believable by the second NBER study, by Daniel Feenberg and Jonathan Skinner, who set out to disprove the first study, by Steven Venti and David Wise, but failed.

It's true that most IRA contributions came from the better off (over $50,000 a year family income), both studies conclude, but these people didn't just shift their savings to IRAS. They actually set aside more in total savings.

Tell people not to save . . . and they don't

INVESTMENT IN IRAS HAS CLEARLY BEEN DISCOURAGED by tax reform in 1986. Assets in IRAS stood at $333.6 billion on June 30, 1988, just 14% higher than the same point the year before. That's way down on the 23% gain from mid-1986 to mid-1987, according to the Employee Benefit Research Institute (EBRI).

Contrast that with Keoghs, tax-sheltered savings accounts for the self-employed, which were not affected by tax reform. Keogh assets stood at $66 billion on June 30, 1988, up 16% on the year before, compared with a 15% gain in the 12 months before that.

Negative publicity about the impact of tax reform on IRAS, or plain ignorance, may have played a surprisingly large role in the decline.

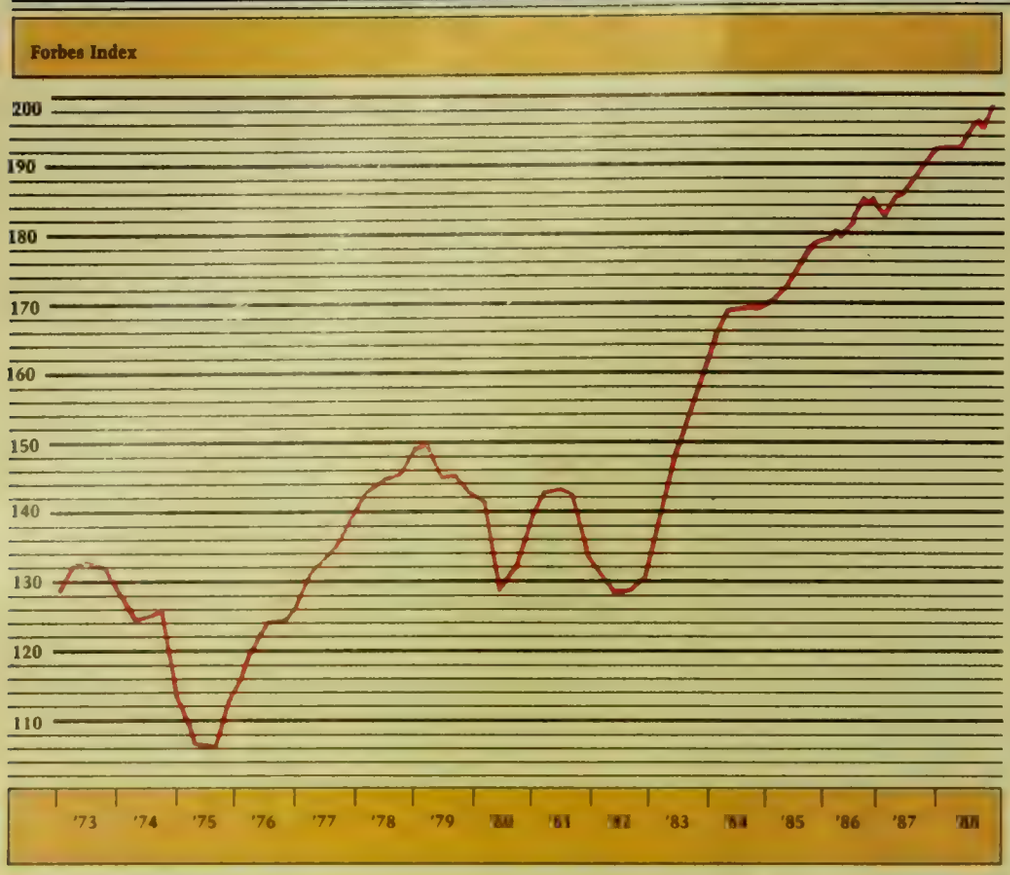
Tax reform, after all, did not completely kill the deductibility of IRAS. Over 90% of single earners or single-income families with an adjusted taxable income of under $25,000 are still allowed to deduct a full IRA contribution. Of two-earner couples, 77% were eligible for a full IRA deduction because their taxable income (after deducting mortgage payments and payments to retirement accounts such as 401-Ks or Keoghs) was less than $40,000 a year. Last year, it's likely, few knew, and even fewer took advantage.

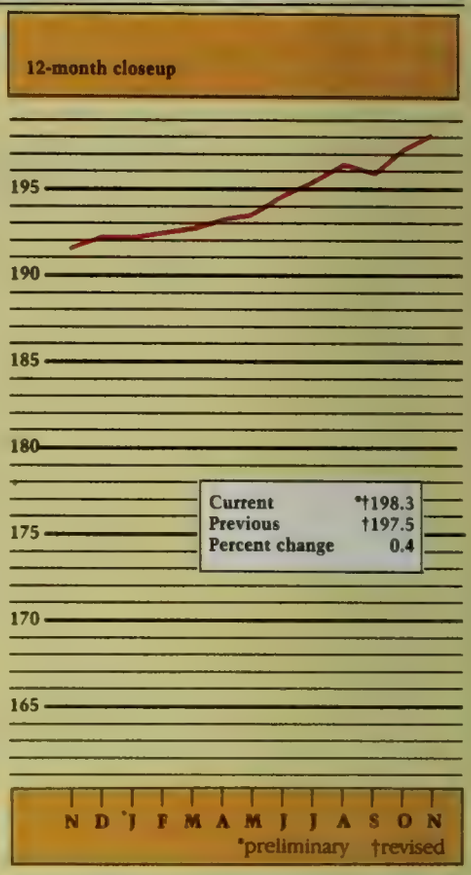
A policy change in the Bushes?

WATCH FOR THE BUSH ADMINISTRATION TO WORK TO REVERSE the antisaving and proconsumption elements of tax reform 1986, but not the low marginal tax rates.

Key to such an effort will be Michael Boskin, incoming head of the Council of Economic Advisers. Boskin says that the supply of national savings (as distinct from foreign borrowing) has a strong influence over the rate of domestic investment—and hence growth of productivity and wealth. On balance, he says, tax reform 1986 is likely to retard capital formation.

The Forbes Index





Cross currents. Forbes Index components are putting out mixed signals. The best news is in the Consumer Price Index component, up just 0.1% in November, smallest monthly increase of the year to date. The services component of the price index was up less than 0.2%. Manufacturers' new orders were up only 0.1%.

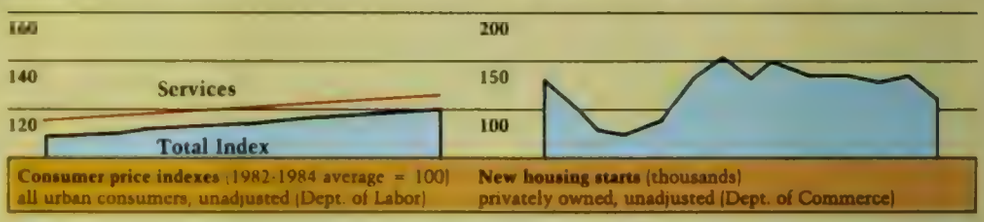
Less cheery is the word on personal income, up just 0.4% in November, second-smallest increase of the year.

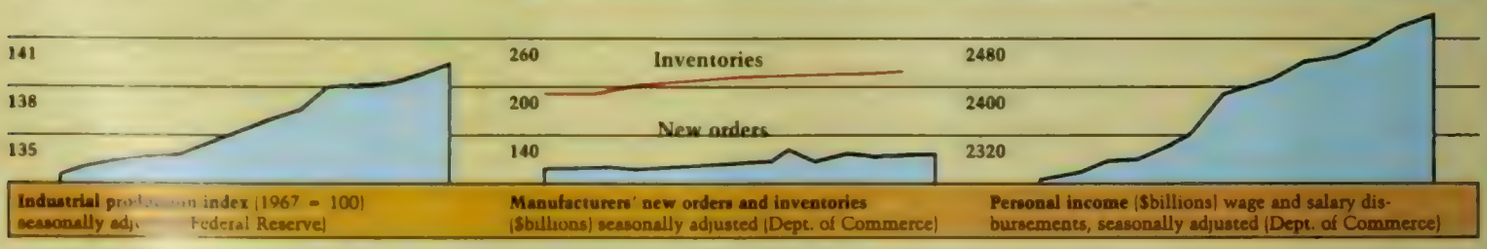
Downright cheerless are the housing numbers. New housing starts of 112,600 in November (seasonally unadjusted) were 5.2% below the pace the year before. For the last 12 months residential building starts were 10.2% below the pace the year before. Rising interest rates are the main culprit behind the building slowdown.

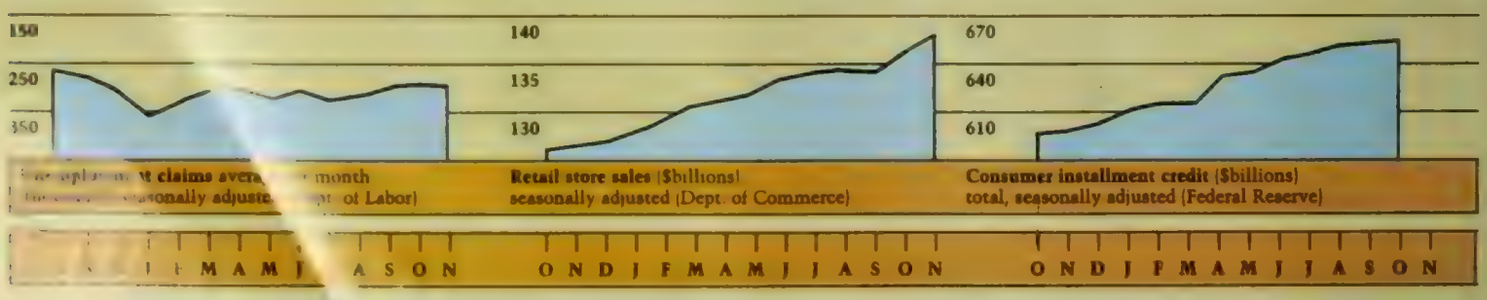
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.







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How would you like a $100,000 mortgage with monthly carrying charges of under $500 a month? Don't snicker. There are some catches, but a new, affordable kind of mortgage is on the way.

PLAM!

By Ronald Bailey

AFTER A BRIEF resurgence late last year, housing starts have resumed their downward trend. Sharply higher mortgage rates have already crimped demand, and rates are likely to continue rising in the months ahead.

But there is a slight glow on the otherwise dark housing horizon. The U.S. Department of Housing & Urban Development is about to announce new regulations that will expedite a new type of mortgage. If it catches on, the new mortgage stands to make housing more affordable, provide lenders with an excellent hedge against inflation, and, possibly, smooth to some extent the steep fluctuations in the housing construction industry.

Enter PLAM—the price-level-adjusted mortgage. What's a PLAM? HUD's chief economist, Susan Woodward, explains it thus:

"A PLAM is a long-term, fully amortizing mortgage whose monthly payments are structured to be constant in purchasing power over the life of the loan. The borrower's initial payment is computed as if the mortgage were a long-term fixed-rate loan at the prevailing real rate of interest, probably between 3% and 5%."

Did we hear right? Between 3% and 5%? That's right. Unfortunately, that's not a nominal 3% to 5%, but 3% to 5% adjusted for inflation. Still, it means much lower monthly payments in the early years.

Here's how it would work. Take a $100,000 30-year mortgage. With a PLAM at 4%, the first year's monthly payments would be a bit under $500. With a fixed-rate mortgage at current rates of around 11%, monthly payments would be close to $1,000. For a young couple, the PLAM is much more affordable. Even allowing for the tax deductibility of mortgage interest, the difference in monthly payments would be huge.

The catch? There's always a catch. Remember, a PLAM protects the lender against inflation. Thus, with inflation at 10%, the principal amount of the mortgage would actually increase, to about $110,000.

Wouldn't this end by burdening the homeowner with a huge debt? No, because there is an offset—the potential appreciation in the property. Presumably, on average, the property would increase in value at least as fast as the negative amortization would increase the debt—and so would the homeowner's income.

The bottom line is this: The borrower gets lower monthly payments. The lender gets protection for his capital against unexpectedly high rates of inflation.

With a PLAM, timing a mortgage is no longer a form of lottery on what future inflation rates will be. Previously, if the inflation premium was modest—as it was back in the long dead days of 6% mortgage money—and inflation soared, the homebuyer won. If the inflation premium was high—as it was a few years back—and inflation moderated, the lender won.

The simple idea behind PLAM is to remove the inflation premium in the interest rate.

While borrowers want low payments, lenders want their principal back—all of it, plus interest, plus whatever inflation ate away. That's the beauty of a PLAM. The outstanding balance of the loan—the principal—is adjusted each month for inflation.

Andrew Christie

Something for everyone?

Mortgages used to come in one variety—fixed rate. Clobbered by inflation, lenders turned to adjustable mortgages with rates tied to short-term money market rates. Now comes the price-level-adjusted mortgage, indexed to inflation. Proponents argue that PLAMs will benefit home buyers, lenders, investors and builders. Below, what a homeowner's payments would have been with ARMs and PLAMs over the last 20 years.

Source: U.S. Department of Housing & Urban Development

PLAM-ing ahead

Below, a hypothetical case of a homeowner's experience with a price-level-adjusted mortgage. Assumptions: changes in 1977-87 incomes, house prices, inflation; 4% real interest rate; 80% initial loan-to-value ratio; 20% payment-to-income ratio; and 1% annual house depreciation relative to a new house.

Year	CPI ratio	Monthly payment	Ending balance	Monthly income	Current PTI*	House value	Current LTV†
0	1,000	$477.42	$100,000	$2,388	20.0	$125,000	80.0
5	1,591	755.70	143,877	3,708	20.4	195,556	73.6
10	1,873	891.32	147,533	4,978	17.9	217,597	67.8
15	2,979	1,415.14	192,262	7,729	18.3	340,420	56.5
20	3,507	1,669.11	165,358	10,377	16.1	378,789	43.7
25	5,578	2,650.03	144,606	16,113	16.4	592,597	24.4
30	6,567	3,125.62	0	21,633	14.4	659,388	0.0

*Payment-to-income ratio. †Loan-to-value ratio.

Source: U.S. Department of Housing & Urban Development.

HUD economists believe that the Urban Consumer Price Index should be used for the adjustments.

What happens in the event of deflation? Both the monthly payments and the principal are adjusted downward accordingly.

The PLAM differs significantly from the adjustable-rate mortgages that lenders have been aggressively pushing. PLAM adjusts the underlying principal for inflation using the consumer price index; adjusted-rate mortgages typically are tied to a short-term interest rate, often the one-year Treasury bill. Since interest rates fluctuate often more violently than inflation, PLAM payments and principal would also fluctuate less violently than would be the case with an ARM.

Take the case where rising interest rates cause an increase in the rate on adjustable mortgages from 7% to 9%. This results in a payment increase on a 30-year, $100,000 loan from $665 to $804 per month. That's a huge increase, especially if the borrower is already streched before the rate hike. With a PLAM, by contrast, even 10% inflation in the early years of a $100,000 loan would boost the payment from $478 to $526.

There are drawbacks to PLAM, some of them psychological. Many borrowers don't like the negative amortization feature because they think they'll never own their homes. Yet millions of Americans now routinely borrow against their home equity to buy cars, boats, European vacations and to send the kids to college. This let's-live-it-up-on-the-house attitude suggests that negative amortization is not the drawback some marketing people fear.

Who will the lenders be? HUD hopes banks and savings and loans will originate PLAMs for a fee, and then sell them to tax-free institutions like pension plans and life insurance companies whose liabilities are tied to the price index, rather than to interest rates. HUD's Woodward believes conservative pension plan sponsors will like investments that act as hedges against inflation.

"The PLAM offers an ideal funding instrument," Woodward says, "because changes in the price level during the life of the instrument are reflected not only in the size of payments on the loan but also in the outstanding balance."

The wheels of government turn slowly, so PLAMs are still working their way through the bureaucratic process. PLAMs will still face regulatory hurdles from the Federal Reserve and the Internal Revenue Service, but those agencies will probably go along. As Andrzej Lubowski, in charge of Citicorp's western U.S. consumer banking activities, puts it, "[PLAMs] would offer the market something that's absolutely not available today—a perfect inflation hedge—and that's a revolution."

Once approved, PLAMs have a terrific marketing advantage. Won't most people go for a plan that will let them carry a $100,000 mortgage with payments of $500 a month rather than $1,000 a month? ■

To fight inflation, the Federal Reserve has pushed up short-term interest rates, flattening the yield curve. This could spell trouble for leveraged buyouts.

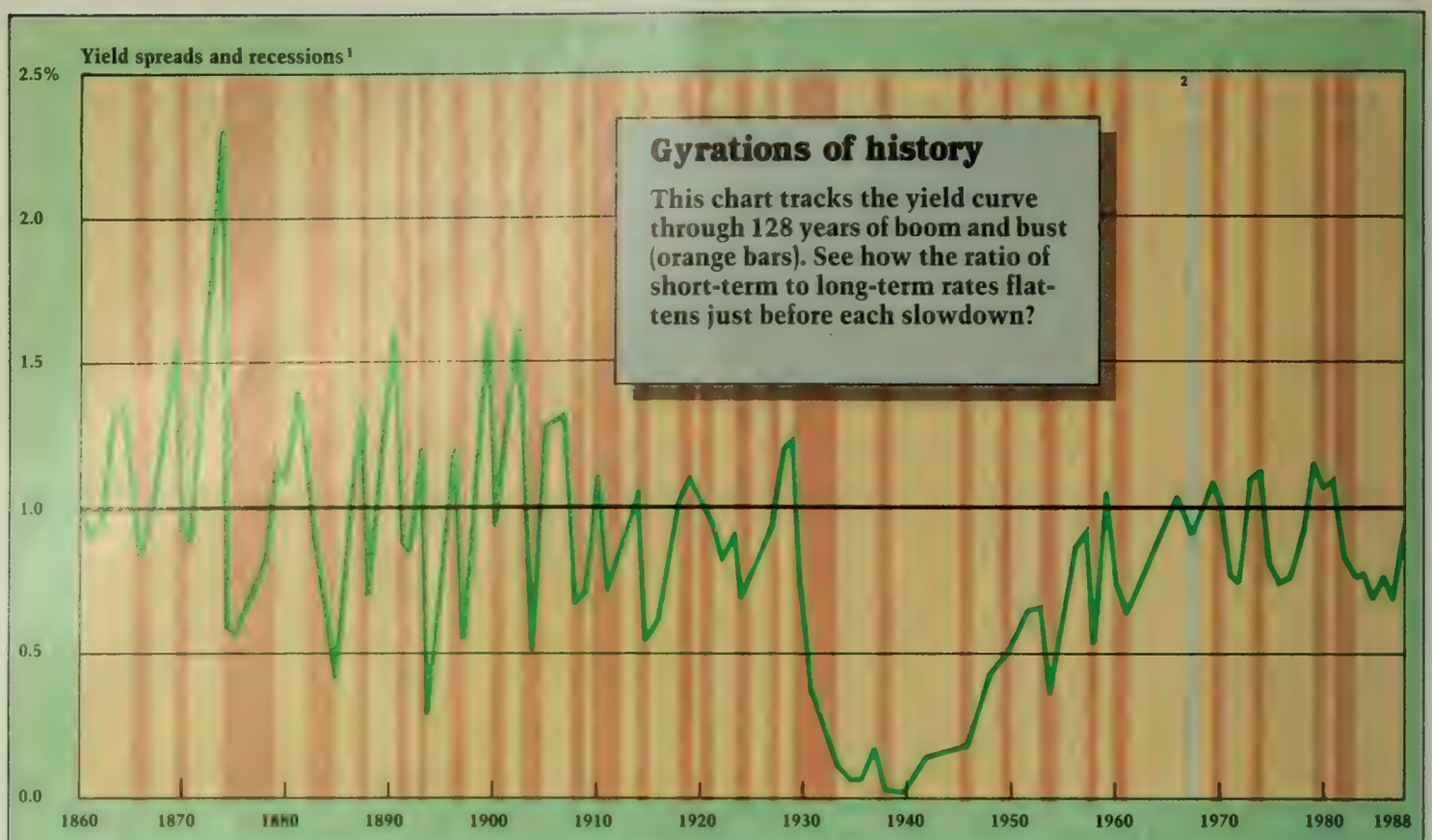
Dangerous shapes

By Jack Willoughby

THE ECONOMY is strong currently, but a good many economists are worrying about a recession in the second half of 1989 or early 1990. What worries them is the current shape of the yield curve—the relationship between the cost of money short term and the cost of money long term. Normally, the longer you borrow the money for, the higher interest rate you must pay; lenders expect to be compensated for tying up their money for a longer period of time. This is shown in a rising yield curve.

The yield curve is currently flat. That is, short-term money costs al-

Andrew Christie



Gyrations of history

This chart tracks the yield curve through 128 years of boom and bust (orange bars). See how the ratio of short-term to long-term rates flattens just before each slowdown?

[1] 1860-1914 Call money rate divided by railroad bond rate 1914 to present: Annual 3-month T bill rate divided by 20-year T bond rate. [2] Growth recession; industrial production fell from first-quarter 1967 until third-quarter 1967 *Sources Bridgewater Associates, National Bureau of Economic Research; Department of Commerce*

most as much as long-term money. For example, the spread between 3-month Treasury bills (8.42%) and 20-year Treasury bonds (9.18%) is now 76 basis points. This is not a natural phenomenon. It happens because the Federal Reserve is tightening credit to curb inflationary tendencies. But the side effect is almost always harmful to business.

Especially today. A few decades ago most lending was at a fixed rate. But today more corporate bank borrowing and private borrowing is at variable rates—that is, the interest rates fluctuate. A quarter-century ago 70% of all debt was long term; today only 59% is. Fed statistics show there is $1.2 trillion in short-term business debt, 41% of total business debt, almost twice the $631 billion recorded in 1979. This means rising interest rates are quickly translated into higher costs for business—and for homeowners with variable-rate mortgages. For leveraged buyouts, financed with variable-rate money and where interest coverage is often thin, rising rates could spell disa

Economist Robert D. Laurent published a study last year for the Federal Reserve Bank of Chicago on predicting economic slowdowns. He found that the shape of the yield curve was the most accurate predictor of slowdowns out of a group of 1[illegible] indicators. When the stock market crashed in October of 1987, a lot of economists panicked and predicted recession. Laurent was among the minority who correctly predicted that the economy would remain strong. He saw that the yield curve was behaving normally. That is, long-term rates were higher than short-term rates. They got that way because the Fed had flooded the system with reserves to keep the brokerage houses from collapsing. These reserves gave the banks plenty of money for lending short term, and so short-term rates stayed low. Low rates facilitate business expansion.

But now we're in a period when the yield curve inverts, with short rates creeping up to, and perhaps beyond, long rates. By one measure, the yield curve inverted just before Christmas; the adjusted federal funds rate rose above the 30-year Treasury rate.

Why is the yield curve inverting? The Federal Reserve Board has gone into an inflation-fighting strategy, by taking banking reserves out of the system and thus making less money available for short-term lending; this drives up short-term rates and slows business. (Why doesn't it force up long-term rates proportionately? Because the market anticipates that the tightening will slow business and inflation and thus bring interest rates down again. That would make long bonds at current rates a good buy.)

There is similar upward pressure on short-term rates in Canada, Australia and the U.K., all of which now have inverted yield curves. This suggests it will become more expensive to finance business expansion everywhere and thus slow down global business.

Laurent's point of view is gaining adherents. Says Raymond Dalio, president of Bridgewater Group: "If I had to pick one indicator, it would be the yield curve. It hasn't missed in a century. Every time the yield curve has inverted, a contraction in the economy has followed on average a year later." Some members of the Federal Reserve Board, including Governor Manuel Johnson, think the board should pay more attention to this indicator than it does.

The yield curve did prove misleading in the mid-1960s before the recession of 1967. But it was only partly wrong: At that time there was an inverted yield curve. While GNP growth didn't stop, industrial ouput did fall *(see chart)*.

Of course, the warning may prove false if the Fed is successful in fine-tuning the economy. If the Fed loosens short-term credit, it could avert a recession. But it will have to be exceptionally nimble, not to say lucky, in its timing. No forecasting tool is perfect, but this one—the shape of the yield curve—has a record that makes it dangerous to ignore. ■

The takeover game depends heavily on the ability of the acquirers to sell off pieces. Thanks to the accounting rules, the number of potential buyers is dwindling.

Ill will

By Laura Jereski

UNDER CURRENT accounting rules, public companies must amortize goodwill. This seeming technicality may slow—somewhat—the takeover game.

Goodwill arises when a company pays more for an asset than that asset's book value. A brand name may have little or no tangible book value but is nonetheless a valuable asset. A local newspaper can fetch far in excess of the value of its tangible assets. When a brand name or a paper changes hands at more than book value, the excess is booked as "goodwill." This goodwill must be written off over a maximum of 40 years under Financial Accounting Standards Board rules. The writeoffs constitute a charge against reported earnings.

This amortization requirement makes it somewhat difficult for U.S. public companies to buy assets that are encumbered with large amounts of goodwill. Let's say an asset earned $10 million last year after taxes. The property—which has no tangible assets—is for sale at 15 times earnings, or $150 million. If a public company buys that asset, it will have to write off nearly $4 million a year to amortize the goodwill. That would reduce the amount it could report as profits to $6 million and raise the price from 15 times earnings to 25 times—a probably unreasonable amount.

The problem doesn't arise for private companies or leveraged buyouts, financed on cash flow. Since goodwill amortization is a bookkeeping charge rather than a cash charge, it doesn't reduce cash flow.

The same is true for most foreign companies. Unencumbered by U.S. accounting rules, they need not amortize goodwill, or, if they must, they can deduct it from their taxes. At the original price of $60 per share, as Grand Metropolitan initially offered for Pillsbury, goodwill would have been $4 billion. This would have caused a $100 million annual hit to operating earnings for a U.S. company. Why could Grand Met afford it? Because British accounting conventions deduct goodwill straight from equity, without requiring amortization; it affects the balance sheet but not the income statement.

But by making it tough for U.S. public companies to buy, the rule limits the number of potential bidders when a corporate asset goes on the market. The fewer the bidders, the less the final price.

Take Beatrice Foods. Asset sales of $6.9 billion have reduced the net investment of Kohlberg Kravis Roberts & Co. and its partners to just $1.5 billion. Recovering that balance and making a profit depends largely on further asset sales. The remaining assets, though valuable, are heavily en-

Painted into a corner?

Goodwill in some of the largest leveraged buyouts, below, ranges from 22% to 66% of total assets. And notice how big an annual charge to operating earnings it can be: from 8% at Burlington Industries to nearly 20% at Beatrice. Even though goodwill is a noncash expense, it reduces reported earnings. Which is why publicly held companies are finding these leveraged buyouts unattractive.

			Most recent period			
Company/buyer	Price	Goodwill	goodwill as % of assets	expense charge to earnings	operating earnings	charge as % of earnings
Beatrice/KKR[1]	$8,400	$1,929	35%	$27	$137	20%
Borg-Warner/Merrill Lynch[2]	4,400	942	34	18	192	9
Fort Howard/Morgan Stanley[1]	3,877	2,329	47	29	244	12
Owens-Illinois/KKR[2]	3,875	1,137*	22	46	391	12
American Standard/Kelso[3]	3,189	1,327	34	14	130	11
Jim Walter/KKR[2]	2,400	1,062	26	46	327	14
Burlington Industries/Morgan Stanley[2]	2,200	618	28	16	201	8
Supermarkets General/Merrill Lynch[4]	1,889	1,093	41	21	210	10
Duracell/KKR[5]	1,861	1,302	56	11	52	21
Stop & Shop/KKR[3]	1,200	722	35	15	91	16

Note: All dollar amounts are in millions. *Includes acquisition of Brockway. [1]Six months. [2]Nine months. [3]Five months. [4]26 weeks. [5]Three months.

cumbered with goodwill.

In an unusual move, Beatrice last year reshuffled that goodwill among its three remaining subsidiaries. One Beatrice remnant, NSI, owns Hunt's tomato paste and Wesson oil; NSI's book contained virtually no goodwill. Those powerhouse brands can probably carry more goodwill than the lesser brands in the other subsidiaries. So, in the year ended February 1988, Beatrice's current owners shifted $1.2 billion in goodwill to NSI from the holding company formed to acquire Beatrice. Or take Owens-Illinois, which KKR bought nearly two years ago for $3.9 billion. Since, KKR has sold more than $1 billion of assets to pay down debt while buying Brockway, which added $387 million in goodwill. But KKR's investors can't be sure of getting their money back until the remaining businesses are sold. The $1.14 billion or so of goodwill on Owens-Illinois' books will make the remaining assets, such as its nursing home operations, that much harder to sell when the time comes.

"Goodwill really constrains how you can dispose of the operations," says Robert Willens of Shearson Lehman Hutton. "In all the euphoria over the high returns [from leveraged takeovers] this has been totally overlooked."

Investment bankers involved in these deals refuse to talk on the record. But privately they concede that the universe of buyers is smaller than initially assumed. "Goodwill has an impact on some buyers—I think you've got a point there," says a source close to KKR. "That's the reason foreign buyers and financial buyers can pay a bigger premium." ■

The country has been up to its tanks in natural gas. Then why are taxpayers subsidizing its production?

Maybe we'll need it someday —maybe

By Toni Mack

AT A TIME WHEN natural gas in this country has been in vast oversupply, the U.S. government is paying gas producers to produce gas.

The subsidized gas is known as coalbed methane and accounted for 34 billion cubic feet of gas production last year. It's found in seams of coal, unlike normal gas, which is found in sandstone and other porous rock. The subsidy is actually a tax credit. In 1988 it amounted to about 80 cents per thousand cubic feet, or mcf. The going price of gas is about $2 to $2.25 per mcf right now, so 80 cents is a handsome gift.

Why is the government providing this largesse? Back in 1980 lots of folks, including the U.S. Congress, thought the world was running out of oil and gas. Prices were so high that Congress enacted a Windfall Profit Tax. Along with the act, lawmakers also created incentives to plumb exotic sources of natural gas, such as Devonian shale and coalbed methane.

That was then, this is now. Since 1982 gas has been so wildly abundant that supply is only now beginning to come into balance with demand. Prices are only beginning to recover. The Windfall Profit Tax has been repealed. Why not the incentives?

Asking the question shows you do not think like a politician. Now, their thinking goes, gas prices are so low that you and I and the other taxpayers can afford to prop up some of the more expensive energy ventures—such as coalbed methane wells—because we will need that gas one day. Apparently buying this feeble argument, Congress last year extended the period during which such wells must be drilled (through 1990 now, not 1989). Congress also made the tax credits carry forward, in case a gas producer pays too little tax to use them now.

As it turns out, coalbed methane isn't all that exotic. The wells simply behave contrary to an ordinary well. Most wells start out with high gas production. Eventually production falls and the wells begin to "make water." That is, pressure falls so that water flows to the well bore. Coalbed methane wells make a lot of water at the start. Then the water production declines and gas production increases.

The wells are more expensive mainly because of the facilities needed to dispose of the water. Amoco has found that they cost around $800,000 apiece in the San Juan Basin of Colorado and New Mexico, the most active area for coalbed methane. That compares with about $150,000 for an ordinary shallow gas well. The well pressure must also be reduced to allow the gas to

One of Amoco's $800,000 coalbed methane wells in Colorado's San Juan Basin
By the early 1990s, helping to produce some $65 million in annual tax credits.

seep out of the coal. Then the gas is recompressed before it can be put into a pipeline. That costs extra, too.

Still, the economics in the San Juan Basin aren't bad even at today's low prices. Meridian Oil, a Burlington Resources subsidiary that has drilled 190 wells in the San Juan Basin, estimates that finding coalbed methane there costs roughly 30 cents an mcf. Extracting and compressing it costs roughly 45 to 50 cents more. Gas in the San Juan Basin is now selling for about $1.95 per mcf. If the wells cost no more than usual to hook up to a pipeline—that is, about 50 cents an mcf—that's a gross profit of 65 cents even before the 80-cent tax credit.

Costs are a bit higher in the other coalbed methane play, the Black Warrior Basin of Alabama, but the economics still aren't shabby. "We're excited," says Richard Patzke of Energen Corp.'s Taurus Exploration unit, a big player in the Black Warrior Basin. "We expect to make a lot of money."

So do many others. Upfront bonus payments to lease promising coalbed acreage in the San Juan Basin have topped $300 an acre, highest since the boom days of the early 1980s. Amoco has spent $150 million drilling, buying and equipping wells there and intends to spend at least $80 million more through 1990. By the early 1990s, Amoco expects to be producing more than 73 billion cubic feet of San Juan coalbed methane annually. That will be worth some $65 million a year in tax credits.

One added plum: The tax credit goes up with inflation. Assuming, say, 3% annual inflation, the credit will be about $1.15 per mcf by the year 2000, at the end of which the credit expires. There is a somewhat ironic hitch in the subsidy as well. Above a certain oil price, which also rises with inflation, the credit is phased out. But that phaseout price is presently around $36 a barrel. If oil were selling for $36—in fact, the price is about $17—gas would go for $4.50 or so.

It's a lot easier to start a government program than it is to stop one. ■

Here's how Allen Paulson broke about even on a Houston building while other investors lost more than $100 million.

"You got to look out for yourself"

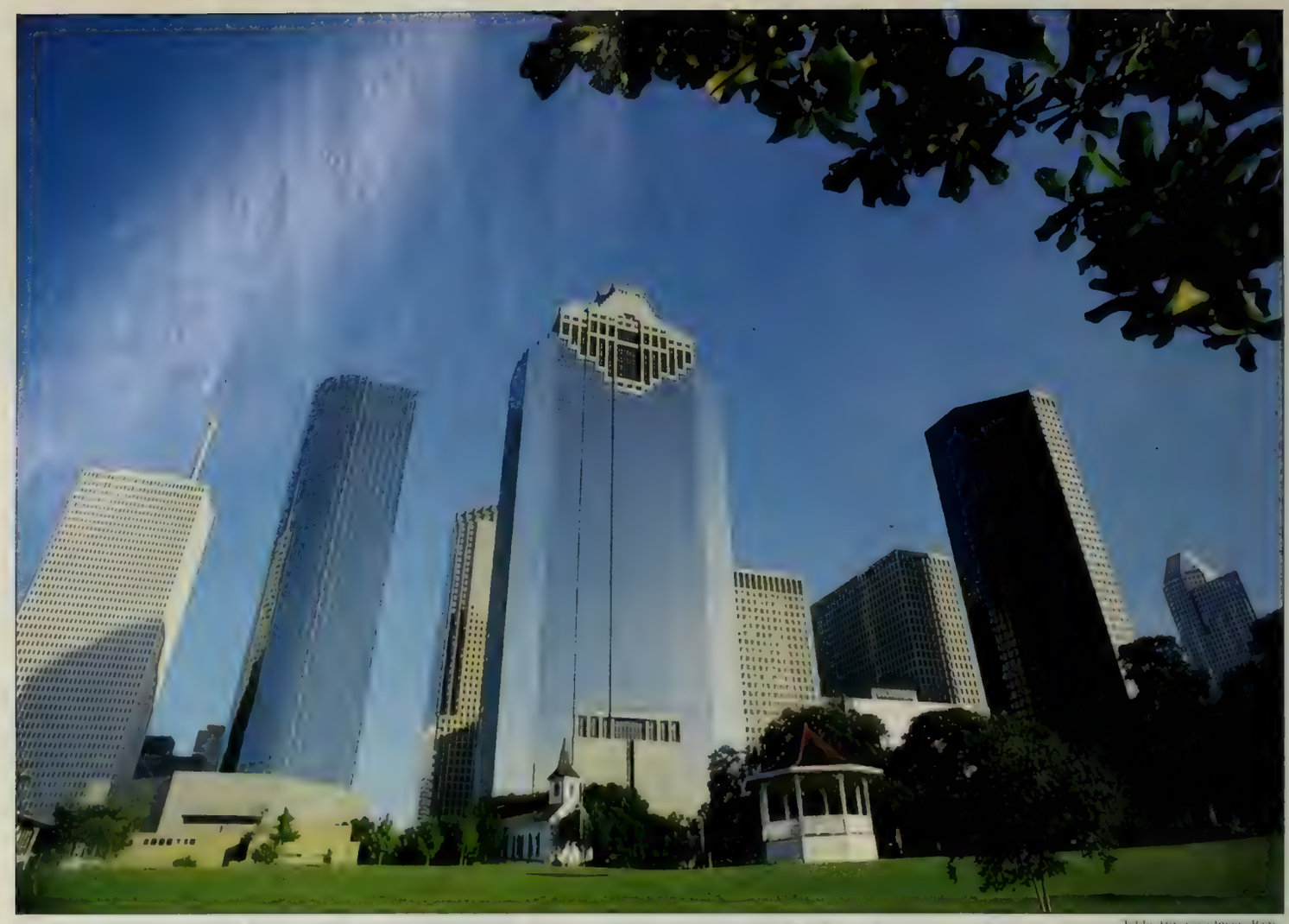
By William P. Barrett

HOUSTON'S HERITAGE PLAZA office building, 53 stories of sheer glass topped by granite, stands 92% empty. Opened in 1986 at an estimated cost of $230 million, the downtown project has boasted such investors as Saudi Arabian Prince Abdul Rahman Faisal and Houston heart surgeon Denton Cooley. Bank of America was involved in the deal as a primary lender along with Houston's First City Bancorporation of Texas.

Oh yes, there was also Allen E. Paulson, the canny 66-year-old president of Savannah, Ga.'s Gulfstream Aerospace Corp. Paulson, who's worth an estimated $375 million (FORBES, *Oct. 24, 1988*), came to own 98% of Heritage Plaza.

Two months ago a partnership 90% owned by the State of Michigan Retirement Systems bought Heritage Plaza for $110 million. Needless to say, the previous investors, banks included, took a mighty hit. Not Allen Paulson. "When you're an entrepreneur, as I'm supposed to be, you look for a way out," Paulson says carefully. "You got to look out for yourself."

Paulson, a former airplane mechanic who solidified his fortune when Chrysler Corp. bought Gulfstream in



Heritage Plaza (center front, with the granite top) *on the northwestern edge of downtown Houston*
Terrible timing and Texas-style overoptimism—53 stories tall and 92% empty.

Eddie Hironaka Image Bank

1985, is no stranger to bailing out of bad deals. A few years ago he dropped an estimated $50 million in a nervy but unsuccessful effort to revive Wheeling-Pittsburgh Steel Corp. Tax writeoffs, though, probably cut that nearly in half.

He did far better with Heritage Plaza, even though the project has become a dramatic national symbol of terrible timing and Texas-style overoptimism.

The original Heritage Plaza developers, who raised $60 million of equity, were prep school buddies Jeffere Van Liew and R.W. (Rusty) Wortham III. They bought the city block for the project in March 1982, the absolute peak of the Houston market. The $47 million price tag on the property, which included a modest landmark building later incorporated into the project, repre[illegible] a staggering $750 a square foo[illegible] double what Houston had ev[illegible] A few months later, world crude [illegible]es, on which the Houston econo[illegible]pends, started tumbling from [illegible]r barrel—dragging local propert[illegible]ues down with them.

Heritage Plaza was a "s[illegible] build-ing, meaning no large tenant was committed before construction. Even though Wortham and Van Liew were respected developers, many people in Houston, including a few of the original limited partners who bailed out early on, doubted at the time that Houston could absorb another office high rise.

Indeed, it took the developers until 1984—when oil was down to $25 a barrel and temporarily holding—to find a lead lender to finance construction: Bank of America, which agreed to raise $198 million. Bank of America kept 25% of the loan for itself, with the rest going to a half-dozen or so others. First City ended up with about 24% and First Bank System of Minneapolis 20%. About this time Paulson joined the project as a limited partner, paying about $26 million for a 43% interest.

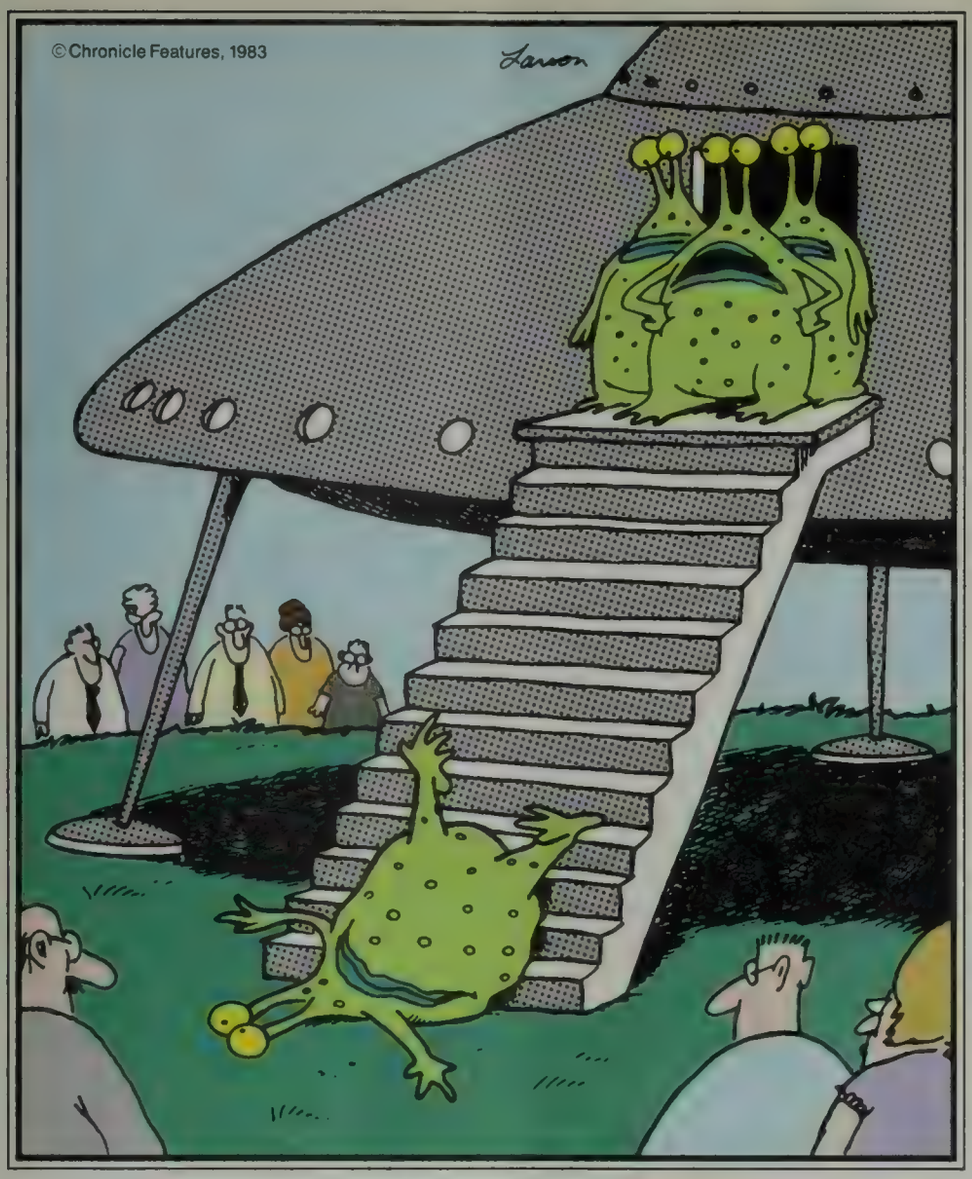
Heritage Plaza's grand opening in 1986 came just after oil prices had plunged again, this time to $10 a barrel, and stayed low. Result: The little leasing demand left in Houston simply vanished.

Many of Heritage Plaza's participants suffered their own financial woes. The two developers each filed for personal Chapter 7 bankruptcy because of another bad deal. First City received a federal bailout that virtually wiped out its shareholders. Commonwealth Savings of Houston, which held 7½% of the debt, became insolvent while Bank of America fell precipitously in size and profitability.

Through a company he controlled, Paulson became Heritage Plaza's general partner and raised his holding to 98% by buying out other partners for pennies on the dollar. He got the Saudi prince's $16 million interest for about $1 million. Dr. Cooley, himself in Chapter 11, unloaded his $7 million investment for $300,000. All told, Paulson spent about $34 million.

Like a lot of other smart people, Paulson figured the Texas real estate bust wouldn't go as far as it did. That's why he continued to buy. What differentiated him from so many others was that he found a way to get out still wearing his shirt.

Last summer things finally came to a head for the banks, which hadn't received a principal or interest payment in nearly two years. Paulson offered to buy their loans if they took



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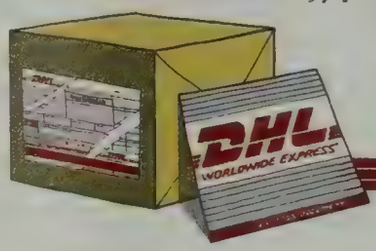

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a big hit. The banks figured he had a secret buyer. But they badly wanted out, since they were losing around $20 million a year in uncollected interest and other expenses. They also knew that if they tried to foreclose, Paulson could throw the project into Chapter 11 and keep their losses growing.

So after some hard bargaining the banks agreed to take $85 million for the $171 million they were still owed. Paulson then revealed that his buyer, the Michigan pension fund, would pay $110 million. And what attracted the Michigan fund? "We feel the Houston real estate cycle is on the low side and the only way it can go is up," says Ron Howard of Houston's Coventry Investment Co., which put the deal together.

So, let's recapitulate. FORBES figures the banks lost about $94 million on what became a $223 million investment. That's a 42% hit. Bank of America dropped about $25 million and First Bank $20 million. First City lost about $19 million—a loss ultimately borne by the Federal Deposit Insurance Corp., which had assumed First City's bad loans after the federal bailout.

Paulson? After paying off the scaled-down bank debts, he was left with $21.5 million, losing only about $12.5 million of his $34 million. That's just 37%, better than the banks got from their mortgages. With the tax breaks that equity owners get in a partnership, FORBES figures Paulson actually broke about even. Now you know how the smart rich stay rich and the dumb rich don't.

"Houston is definitely turning around," a satisfied Paulson says now. So would he consider another Houston deal? The reply comes quickly: "No." ■

"Cost-free" government guarantees can be very costly. Last year the Veterans Administration's Loan Guaranty Service tapped $1.1 billion in taxpayer funds.

Let's make a deal

Jean-François Allaux

By Janet Novack

CLEARLY, THE U.S. needs to do some fresh thinking on how to finance home ownership *(see p 38)*. With housing prices depressed in large parts of the U.S., the nation is now in the midst of the worst residential real estate foreclosure wave since World War II, which means that the supposedly self-supporting Veterans Administration fund set up to insure veterans' home loans has eaten through its reserves and into taxpayers' pockets. In fiscal year 1988, ended Sept. 30, the fund required a record $1.1 billion subsidy.

The VA fund is an egregious example of how supposedly cost-free federal guarantees come home to roost.

Just as significant, perhaps, the VA and the Federal Housing Administration have been selling tens of thousands of foreclosed homes in the Southwest and other depressed areas for what are often bargain prices. These sales inevitably put downward pressure on housing prices, which is further bad news for the hopelessly insolvent Federal Savings & Loan Insurance Corp. FSLIC insures the nation's savings and loans (again supposedly at no cost to the taxpayer). Every drop in housing prices erodes the thrifts' mortgage portfolios.

Last year the Federal Housing Administration booked a net loss of $23,686 on each of 80,184 foreclosed houses it sold. Average sales price: $38,000. For the first time ever, the FHA single-family housing fund lost more on foreclosures than it collected in the insurance premiums (paid by buyers) that are supposed to cover all its costs. Fortunately for taxpayers, the FHA still has a cumulative surplus.

To hold down current losses, the FHA and VA are merciless in turning foreclosed properties into cash. Under instructions from Congress to sell more of its houses for cash, the Veterans Administration has been offering a sweet deal: up to 20% off market value if you buy one of its houses with cash, rather than VA financing. That holds down the VA's current losses, but will likely cost taxpayers more in the long run. An Inspector General's audit last year charged that some FHA offices routinely set foreclosed house prices an average of 20% to 40% below market value.

Federal Housing Commissioner Thomas Demery, who heads the FHA, disputes that assessment and offers few apologies. The FHA, he says, has drawn fire "not because we were dumping or depressing sales prices but because we were acting as an effective seller. We went on television and radio. We had specials. That got people upset because for the first time the government was a credible competitor in the marketplace."

Demery's job, it's true, is not to support housing prices but to keep the FHA solvent and off the taxpayers' backs. If this causes federal losses elsewhere, say in greater savings and loan rescue costs, that's somebody else's problem—the taxpayers'. ■

Chairman Li-Pei Wu with clients Sonia Li and Bobby Bruce Levy

Immigrant banking, Eighties-style, is not quite a matter of tending the needs of huddled masses.

Steve Smith/Wheeler Pictures

How does Los Angeles-based General Bank return 30% on equity, earn double the industry average on assets and have almost no nonperforming loans?

Mr. Wu knows his customer

By Gretchen Morgenson

LAST SPRING, after Los Angeles-based General Bank knew that its net income for the first half of 1988 would be sky-high, some board members approached the bank's chairman, Li-Pei Wu with a suggestion. Why not, as a reward for the outstanding results, throw a corporate shindig in Hawaii? Six years earlier, after all, an anxious Federal Deposit Insurance Corp. had practically been camped on General Bank's doorstep, and now the bank was earning 30% on shareholders' equity. Wasn't a celebration in order?

Wu liked the idea just fine, and so it came to pass. But they do things differently at General Bank. The attendees paid their own way.

Clearly, in today's world of plundered thrifts and multimillion-dollar regional bank writedowns, Li-Pei Wu, 54, and his General Bank ($400 million in assets) typify an anomaly—a growing number of small but highly profitable commercial banks in southern California that cater to local entrepreneurial Asian populations.

Immigrant banking, Eighties-style, is not quite a matter of tending the needs of huddled masses of the tired and poor. Many Koreans and Taiwanese who migrate to southern California do so with plenty of money in their pockets. No surprise, then, that the bankers who help finance their enterprises—and who speak their language—are flourishing. Last year GBC (formally GBC Bancorp) returned around 2% on average assets, twice the industry average.

General Bank is run primarily by Taiwanese immigrants for Taiwanese customers, a population that continues to grow and prosper in and around Monterey Park, east of Los Angeles. Many of its customers run export-

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import businesses with the help of associates back home. Wu, too, relies on Taiwan sources—to feed him prospective clients. His extensive network in Taiwan—the honorary chairman runs a credit bureau—allows him to check an immigrant's background there before he hands over a loan here. "Our clients may be new to business in this country, but they're not new to business," says Wu. "We realize this, other banks don't."

Wu was brought to GBC in 1982 to revive an institution near death. "The bank had lost $2 million in 1981 and was expecting a $4 million loss in 1982," he recalls. "Its capitalization was almost gone." The institution had opened its doors in 1980 and was supported by Taiwanese-American deposits, but management had let expenses get out of control—buying a computer system, for instance, that was much larger than necessary. Lending officers also made what proved to be a big mistake: lending to non-Taiwanese.

Wu arrived with two plans: cut expenses and focus lending on people and businesses known to him and his colleagues. When he arrived in 1982, the bank had 135 employees and assets of $100 million; salaries and other overhead topped $5 million. Six years later assets have quadrupled, but the number of employees is the same and overhead is less as a percentage of assets. Gone is the computer system. In the bank's main branch, where you'd expect to find a lobby, loan officers sit at modest desks.

A year after he arrived, Wu had GBC at break-even, and six months after that he had eked out a 3-cent-per-share profit. Since then, earnings have gone straight up.

Earnest frugality has marked Wu's path since he came to the U.S. in 1968 for his M.B.A. He was graduated from National Taiwan University with an economics degree but had little money. "So I applied to America's cheapest universities," he says. He landed in small-town America, at Fort Hays State University in Hays, Kans.

Thrift is one key to Wu's operation. Another: The folks who handle lending policies and loan reviews are kept separate from those who approve the loans. This is common at huge money-center banks, but unusual for a bank of GBC's size. It gives Wu control over loan quality and portfolio balance—approximately 25% commercial loans, 20% real estate construction loans and 45% conventional real estate loans these days.

General Bank can push hard in a customer's behalf. Example: the California State World Trade Commission's limit of $350,000 per borrower on the small business loans it guaranteed wasn't big enough for one client's needs. The Small Business Administration in Washington would guarantee the same amount. After some GBC lobbying, these agencies agreed to a combined ceiling of $700,000. Wu's customers appreciate the energy. Says George Lee, president of Kaizer International, a computer and machinery exporter in Huntington Beach: "With GBC, I do ten times the business I did with my other bank."

GBC also dispenses foreign currency advice. A few years ago Wu became increasingly convinced that the Taiwanese dollar was severely undervalued, that a readjustment was coming, and that his importing customers would be wise to shift their business plans accordingly. By late 1987 the Taiwanese dollar had risen 40%. Any GBC client unprepared for the rise had only himself to blame.

Analysts at Keefe, Bruyette & Woods, which underwrote a secondary stock issue for GBC last fall, say that assets could reach half a billion dollars within 18 months. Although the stock has risen 37% since the September offering, it remains at a relatively low eight times estimated 1988 earnings. The shares trade, rather thinly, over-the-counter.

What might stop GBC's growth? One worry is the prospect of increased competition. There is talk among Taiwanese banks of entering the U.S. market. "If the big Taiwanese banks were to compete here, GBC might have to look at diversifying," says Peter Wirth, a vice president at Keefe, Bruyette & Woods in San Francisco.

And GBC could become an acquisition target. Security Pacific has seen the profit potential in ethnic banks: Since early 1987 it has bought Los Angeles-based California Pacific National Bank and San Francisco's American Asian Bank. Neither had GBC's strong assets or earnings growth. Interstate banking comes to California in 1991. Any acquisitor had better learn to speak Chinese: Insiders at the bank—all Taiwanese, save one—own 43% of the company's shares. ■

It takes lots of technology to run those lotteries. That's why little Gtech has grown so fast—and why its profits are so erratic.

Automating an ancient business

By James Cook

No, Gtech Corp. isn't in genetic engineering. The "G" stands for gaming and the "tech" for the company's focus on gambling technology. This unusual little Providence, R.I. outfit designs games, and builds computer and communication systems for the lottery business—systems, terminals, software. And it's booming. In three years Gtech's sales went from $33 million to $126 million, earnings from $2.6 million to $7.7 million.

But this business itself is something of a gamble. In fiscal 1988, ended last February, Gtech sales gained another $14 million, but net income fell nearly 30%, to $5.5 million. This past year, on another $6 million gain in first-half sales, net fell another 37%. Gtech's stock—there are 9.6 million shares outstanding—went from 5⅞ in 1983 to as high as 30¼ in 1986, headed south after the 1987 crash and recently traded around 10.

Why the declining profitability? Partly because of its very success. The company lives off large contracts from state government lotteries—five-year contracts usually. A handsome new contract, while greatly to be desired, will often penalize earn-

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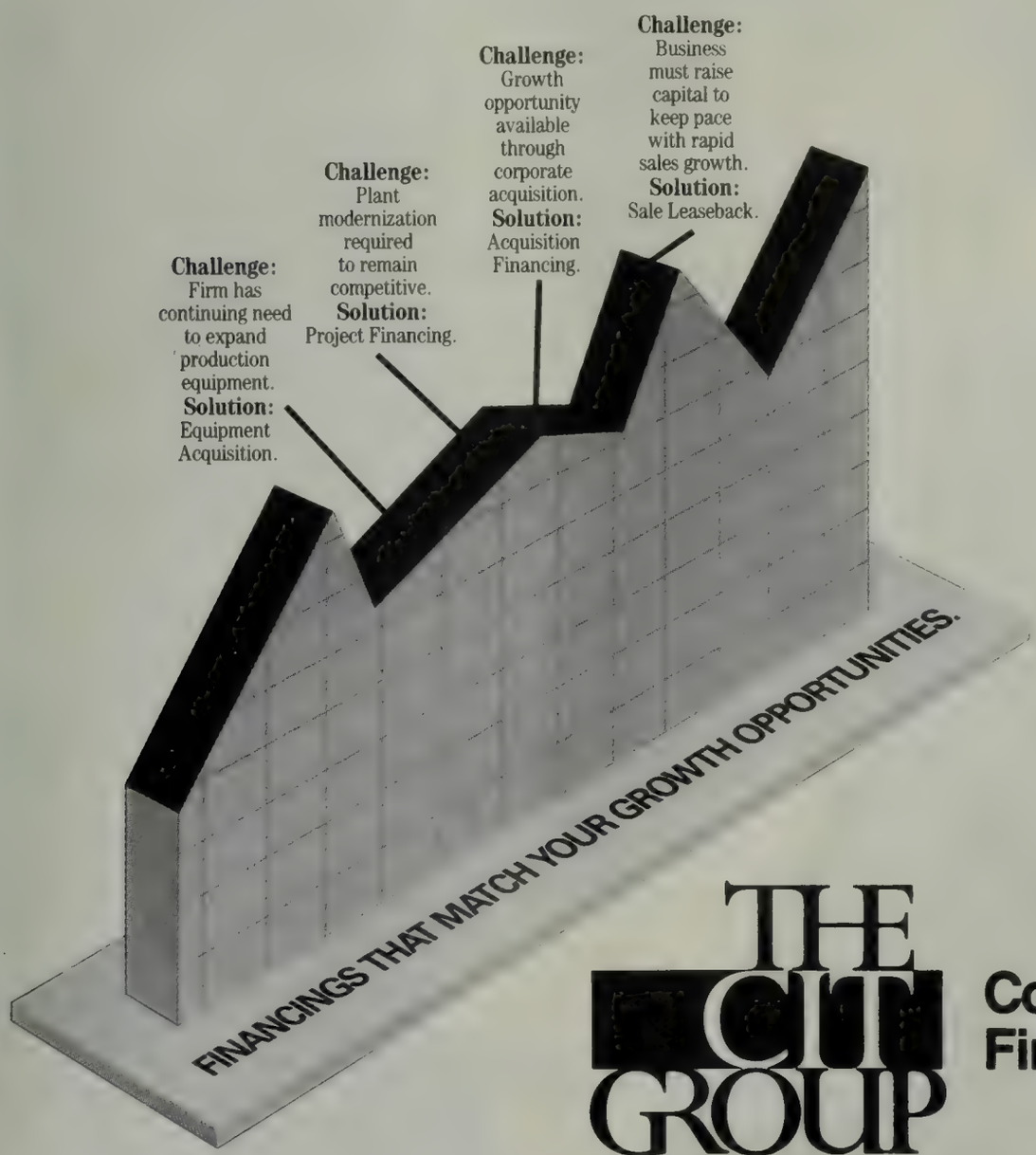

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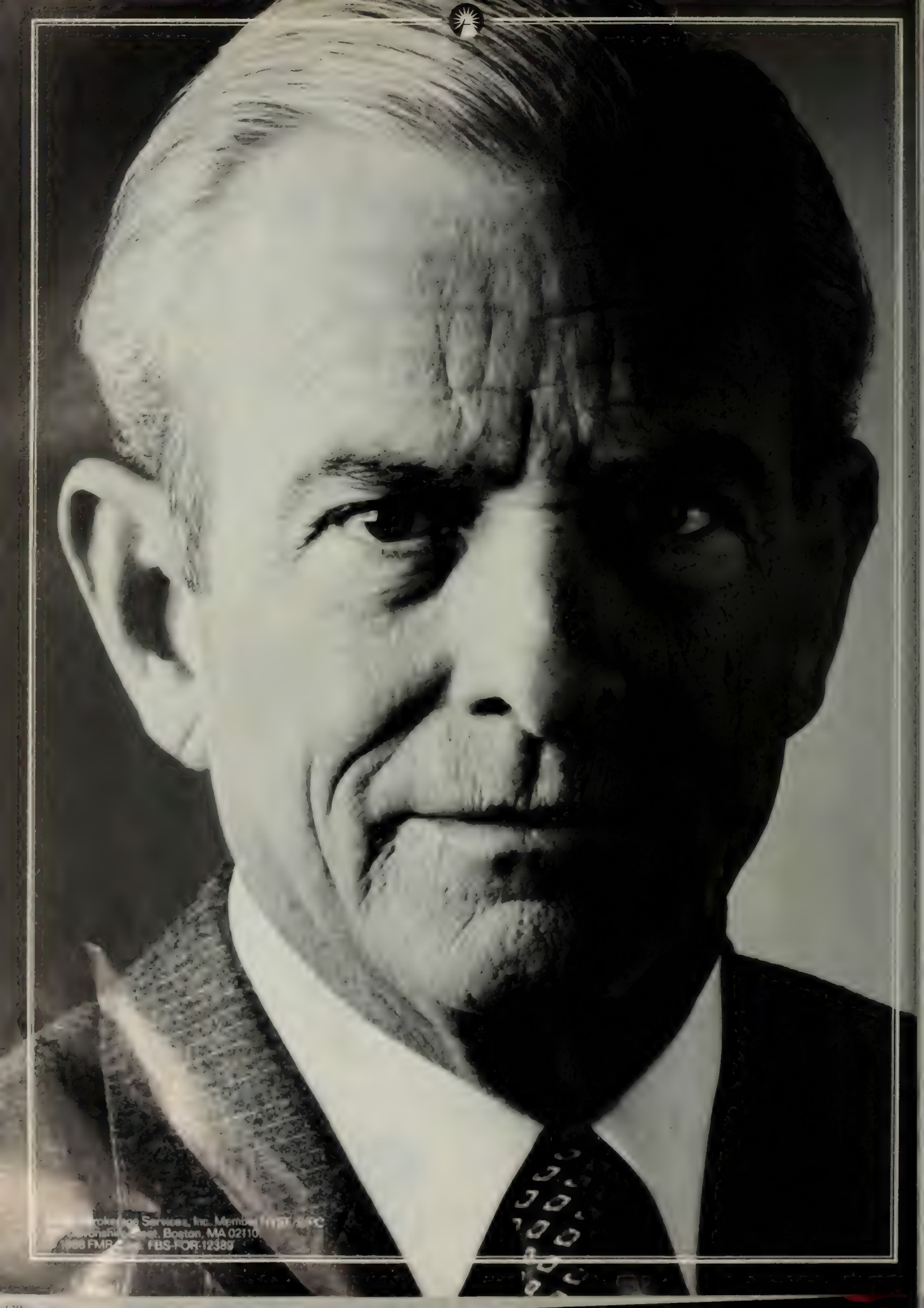
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Brian Smith

Chairman Guy Snowden and a Gtech lottery terminal
Technology turned passive bettors into active lottery players.

ings in the early years. Here's why: Although Gtech's costs are fairly constant over the life of a contract, its revenues are pegged to the lottery's sales, so that Gtech's revenues run below costs when a new lottery is introduced and well above costs as the lottery matures. This will change when Gtech develops a large enough base of mature contracts to absorb the weight of the new ones, but that time is not yet at hand.

This year Gtech is getting three recent contracts under way—in Kansas, Spain and Ireland. Gtech has won so many contracts that it is now the biggest supplier in the business and has 60% of the worldwide lottery terminals business. It operates in nine states and the District of Columbia, versus seven for rival Control Data, five for Bally Manufacturing. Gtech considers itself a lottery company, rather than a computer company, a software company or a terminal company, which it also is, and this emphasis on the game rather than its components is probably a significant reason Gtech was able to seize the dominant position in the business away from Control Data.

It's a highly competitive business. Yet, despite recent losses in bidding for contracts in Connecticut, Florida and Quebec, Gtech continues to gain ground. This past year it won a new contract in Colorado, wrested old contracts away from Syntech International in Michigan and from Control Data in Illinois. It also lost a major contract—to General Instrument—in neighboring Connecticut.

Gtech started out over a decade ago as a partnership between two lottery consultants, Guy Snowden—now Gtech's chairman—and Victor Markowicz, now vice chairman. Snowden had experience in computer systems and marketing, and Markowicz in computer software and game design. The two pooled $1,500 to found an outfit called Gaming Dimensions and set about transforming the lottery business.

The business was ripe for change. Throughout history, you bought a lottery ticket and waited for weeks and even months for the winning number to be drawn. But in the late Seventies retail terminals linked to central computers began changing all that, turning the lottery from a passive intermittent game into a high-frequency, player-active game wherein players could pick their own numbers and learn whether they'd won within days, hours, even minutes.

Gtech rode the crest of the wave. It implemented the first on-line Lotto game in 1978 (in Ontario), concocted the astonishingly successful Quick Pick, a game in which a computer picks numbers for players too baffled by the possibilities to come up with numbers of their own. And it's still innovating. It has come up with a Smart Card, for playing a player's favorite numbers in plastic, a new lottery game based on the Triple Crown horse races, and a system called ExpressBet for delivering lottery play to multiple checkout counters.

Gtech designs its own equipment but, unlike Control Data, assembles it from components manufactured almost wholly by others.

How soon will all this begin producing consistent results on the bottom line? The ingredients are already there. The contracts in New York and Kansas have begun to mature, and several new states are coming on line. Gtech is bidding on new contracts in Virginia and Wisconsin; it's got its eye on Kentucky, Minnesota, Indiana and Idaho, all of which authorized lotteries in November's elections. Dillon, Read analyst William Ritger expects Gtech to earn 65 cents this year, up from 50 cents in fiscal 1988, and $1.05 in fiscal 1990.

"What happens when all the states have lotteries?" says Snowden. "We thought of that years ago when we headed overseas. There's an enormous market there just automating existing lotteries." ■

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How do you parlay a $50,000 investment into a $20 million TV production and avoid most all the risk? Just ask a little-known lady from Harlem who proved to be one smart entrepreneur.

The golden dove

By Graham Button

ANYONE WHO HAS been following the travails of beleaguered CBS, dead last in the Nielsen ratings, knows the network has been counting heavily on the success next month of its $20 million miniseries epic, *Lonesome Dove*. If the shoot-'em-up Western, based on the 1986 Pulitzer Prize-winning novel by Larry McMurtry, does prove a smash, the biggest beneficiary will be a 42-year-old black female college dropout named Suzanne de Passe.

De Passe started out as an unknown talent coordinator who hustled concert dates for pop music groups, including black rhythm and blues artists. These days she's riding high as the head of one of the oddest Hollywood studios imaginable to be producing a Western for TV—Motown Productions.

When last anyone looked, Motown wasn't a Hollywood movie studio at all but a Detroit record company with a list of predominantly black recording artists that included Smokey Robinson, Stevie Wonder and Diana Ross. Last summer, long after many of its biggest names had been lured away by major labels, Motown Records was sold to entertainment behemoth MCA and a group of private investors for something in excess of $60 million.

Besides a music publishing business, which milks cash from the copyrights of its old hits, Motown itself is left with a small film and TV [illegible] set up almost 20 years ago when the current company first moved to Los Angeles.

[illegible] de Passe who [illegible] headed the studio for the last eight years, Motown Productions has had successes with musical variety specials featuring [illegible] Motown rock and soul stars. Now, with *Lonesome Dove* both de Passe and her studio are on the verge of either a spectacular success or a major setback.

If it's a success, Motown stands not only to make one of the biggest returns on investment in recent TV history but also to greatly enhance its prestige while CBS shoulders nearly all the risk.

Here's the story:

De Passe read the 2,000-page manuscript of *Lonesome Dove* just prior to publication and instantly saw in it a modern-day classic of the Old West. When movie studios 10 and 20 times Motown's size turned up their noses at the property as a tired genre and overly long, de Passe optioned the television and film rights for a mere $50,000 in the spring of 1985.

Most network miniseries are budgeted at about $1.5 million an hour. But when the novel was awarded the Pulitzer Prize for fiction the following spring, its value increased so much that de Passe was able to get CBS to offer $16 million, or $2 million an hour, for the right to telecast the finished eight-hour miniseries.

Just as remarkably, de Passe succeeded in selling off for $1 million 50% of Motown's eventual profit in the project—a right Motown had acquired for only $50,000. The buyer: Qintex Entertainment. Thus Motown was way ahead of the game before a camera turned.

Qintex, meanwhile, agreed to finance the remaining $4 million for a standard distribution fee of 25% to 40% of total ancillary receipts such as cable, home video and foreign sales. Plus, Qintex gets half of whatever net

Bernard Lallon

Robert Duvall and Ricky Schroder on the set of Lonesome Dove
Trying to rustle up some ratings for CBS' besieged prime-time schedule.

profits remain after it takes fees and recoups its production deficit.

De Passe pulled off her coup mostly by ignoring those who said she was out of her league. For behind her laid-back southern California facade lurks an aggressive personality driven by success.

That personality was honed in de Passe's youth as the only child of a broken home in a middle-class neighborhood in New York's Harlem. De Passe's parents were divorced when she was 3 years old, and her father, a salesman for Seagram, moved out. The experts tell us that children who lack role models have trouble coping with the world. Not de Passe. She taught herself how to compete and succeed in the world of men.

It all began somewhat inauspiciously. In 1966 de Passe, then a wide-eyed 19-year-old with a keen ear for spotting musical talent, dropped out of Manhattan Community College to work as a talent coordinator for a hip New York night club. Two years later she moved on to Motown Records, then in its heyday as one of America's leading hit factories. De Passe brought a natural creative acumen to the job; she has won two Emmys and is credited with having discovered and signed such major artists as Lionel Richie. But mastering the finer points of the business side was another matter. She credits her mentor, Motown Industries founder and Chairman Berry Gordy, with having had the patience to "let me mess up a lot of things" and "spend a lot of his money" in her early years. Says she of the result: "Hopefully, it's balancing out now."

Ann Summa

Motown Productions President Suzanne de Passe
"We're not a one-trick pony anymore."

So what has CBS, which in effect is putting up fully 80% of the money to produce *Lonesome Dove*, now gotten from de Passe in the miniseries deal? Absolutely nothing beyond the long-shot hope that the venture proves a hit with television's notoriously fickle viewers.

It is indeed a long shot, for in an era of zap-happy viewers, multichannel cable homes and VCRs, network programming these days tends toward shorter, four-hour miniseries that don't ask the viewer to devote whole weeks to watching a single program. Moreover, *Lonesome Dove* is a Western, a genre that hasn't worked well since *Bonanza*, more than a generation ago.

Yet CBS has a lot riding on the gamble. During one pre-Christmas week in December, CBS' average prime-time rating was the worst ever recorded by any network during a regular season. This for a network that was on top of the ratings heap only four seasons ago.

Lonesome Dove's scheduled telecast date is next month, in the crucial February "sweeps," which are used to set advertising rates on local stations for months to come. CBS has already guaranteed a hefty minimum Nielsen rating of 18, or 16.3 million households, for at least some national advertisers on the miniseries. If the show is a hit, it should help to provide a solid launching pad for a number of midseason replacement programs the network now has in the works. But if *Dove* flops, CBS could wind up owing advertisers plenty in "make good" free advertising time and, undoubtedly, could find itself mired even deeper in the ratings basement.

As for de Passe, if *Dove* does succeed, she will have turned a hitherto unknown studio, Motown Productions, into a force to be reckoned with both in Hollywood and New York. She says with much bravado, "We're not just a one-trick pony anymore." ■

Second Careers

It's tough making money selling automobiles. Jim Robinson did so well at it that he decided to try his hand at Hollywood. Is selling dreams the same as selling vehicles?

From cars to stars

By Peter Newcomb

HOLLYWOOD HAS LURED another shrewd businessman. James G. Robinson made a fortune running Subaru Mid-America, the 90-dealership-territory exclusive distributor for Subaru cars and parts in the Midwest. Subaru was a hot brand, and Robinson got in early, in 1975. He also got out at a good time, selling his distributorship back to Subaru of America in January 1988, just when demand for small Japanese cars was peaking. That left him with odds and ends: an imported car and truck port processing center in Los Angeles and a similar operation in Baltimore. "I also have a trucking company, ICC-licensed to haul automobiles anywhere in the U.S.," Robinson says.

But, at 52, he was looking for new worlds to conquer. Why not something with some glamour and glitter? Hollywood beckoned. In September 1987, after giving up smoking three packs of cigarettes a day, a very un-Hollywood-like habit, Robinson teamed up with producer/director Joe Roth (*Revenge of the Nerds, Bachelor Party*) to form Morgan Creek Productions. (The name is an homage to the late Preston Sturges' *The Miracle of Morgan's Creek*, a 1943 film.) Supported with a $126 million credit line from Baltimore's Signet Bank, Robinson and Roth hope to make five or six films a year.

Morgan Creek Productions James G. Robinson
Leave the distribution to others.

Does Hollywood really need another independent producer? Cannon Group, De Laurentiis Entertainment Group, New World Entertainment and Weintraub Entertainment Group have all fallen on hard times.

Robinson, who prefers a preppy look to Polo Lounge flash, says Morgan Creek will be different. Having watched the financial flops of many new independents, Robinson says he and Roth carefully studied the wreckage. They decided the problem lay in the distribution end of the business—which is how studios get films to, and box office receipts from, the theaters. Most independents sold foreign or video rights up front, before filming, but distributed the films themselves inside the U.S. Robinson and Roth concluded that an independent moviemaker ought not to be in domestic theater distribution at all.

"There's got to be some reason, other than money, that the same six or seven distributors have been around for the last 50 years," says Roth. "It's a difficult business. All of the new Wall Street [entertainment] companies fell on their asses, and part of the reason was that they were trying to do their own distribution." Robinson and Roth turn their completed films over to a major film company for distribution. In so doing, of course, they must give up some of their profits to the distributor, but they will be assured of getting a first-class distribution job. After all, the big studios now own or control over 3,000 of the country's 14,000 first-run screens.

Roth and Robinson were also unimpressed by the quality of the films the independents were turning out. "We determined that what was wrong wasn't so much the [financing] formula but the films," says Roth, who produced and directed *Revenge of the Nerds* for Ted Field's Interscope Communications before going to work for Robinson. Rather than make the under-$5-million sex and horror exploitation flicks that became the mainstay of many independents, Morgan Creek's partners say they'll specialize in A movies, budgeted at $10 million to $14 million (excluding print and advertising costs, budgeted at $6 million per movie and sometimes shared by the distributor). "Too many Hollywood films are deal driven," says Rob-

inson, who leaves his Baltimore home every other week to spend time in Los Angeles' movie center. "But people don't go to see deals, they go to see movies." Says Roth, "We want to make movies that Fox or Universal can put its stamp on."

In a town where everyone is trying to leverage himself on someone else's money, Morgan Creek is unusual. It self-finances its movies—no partners.

"Typically, you have a script, you have a budget, you have the director, you have a cast, and you have a start date," explains Roth. Then, Roth says, most independent producers look for someone else to put up the money. "They say: 'Gee, I spent $300,000 for the script, can you lend me $15 million to make a movie?' But with us it's, 'Listen, I started the picture on Oct. 9, I have already sold the foreign rights, and you're entitled to bid with everybody else for the domestic distribution rights.' "

Morgan Creek's first movie, released last August and distributed by Fox, was *Young Guns*, a modernized Western starring Charlie Sheen and Kiefer Sutherland. The partners sold the video and foreign rights to Vestron for $10.5 million. Cost of the movie? About $11 million, not including print and advertising costs. If *Young Guns* took in even $12 million at the domestic box office, the film rentals would come to about $6 million. Add about $3.5 million for TV and syndication rights, and you'd have enough to recover the cost of prints and advertising plus the distributor's share, and still leave $500,000.

Penny Wolin

Cofounder Joe Roth
Making movies, not deals.

In fact, *Young Guns* did $44 million at the box office, earning Robinson and Roth nearly $10 million.

Morgan Creek's second release, *Dead Ringers*, has yet to turn a profit. While it received good reviews and won for Jeremy Irons the best actor prize from the New York Film Critics Circle, *Dead Ringers* has grossed just $11 million in the U.S. and Canada. But even if it ends a small loser, Robinson will still be well ahead of the game with the profit from *Young Guns*.

Hoping to get momentum again, the partners have slated six productions for 1989 release, among them *Skin Deep*, a comedy starring John Ritter and directed by Blake Edwards; *Major League*, a baseball comedy starring Charlie Sheen; and *Renegades*, an action film.

Twentieth Century Fox, which distributed Morgan Creek's first two releases, plans to release additional Morgan Creek product. "They're smart, and they respect your opinion," says Tom Sherak, president of marketing for Fox. But Sherak adds a word of caution worth heeding in any business: "The one big fear is when you start to do well, and all of a sudden you put yourself on the line for a $30 million picture and it ends up a bomb. That's how people get hurt." Especially people who do their own financing. ■

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In New England they say that good fences make good neighbors. Here is why.

This land is my land . . . or is it?

By Deirdre Fanning

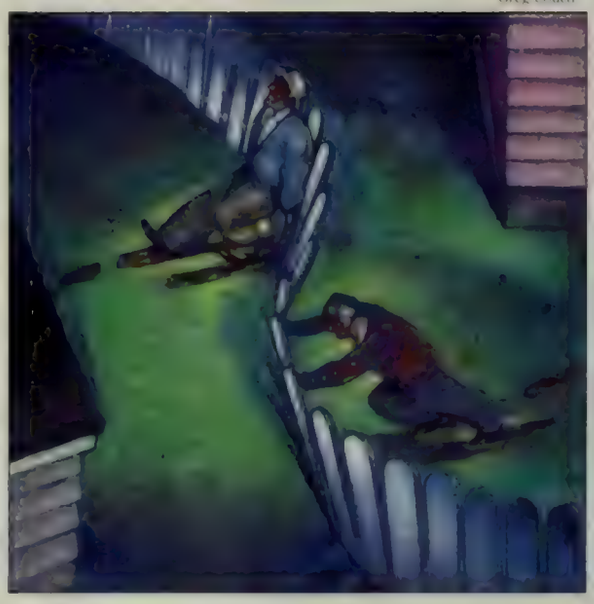
SIX MILES FROM downtown Hartford sits Newington, Conn., a tree-lined suburb of stately colonial houses and verdant front lawns. However, the town's smug tranquillity was shattered two years ago when the residents of one Newington neighborhood discovered that their entire 104-house subdivision had been incorrectly surveyed. Thus, the sidewalks were on private property, and chunks of some Newington backyards now belonged to next-door neighbors—who just happened to live over the line in the next town. It was a property owner's nightmare.

Newington's troubles are not unique. Boundary disputes, which have been around for as long as property itself, are on the rise. Increasing real estate values are one reason. The explosive growth in the secondary mortgage market is another. With the new issuance of mortgage securities topping $150 billion in 1988 alone, banks and title insurance companies are becoming more vigilant about deeds and titles.

"These cases are all arising now because the banks and title companies are requiring surveys," says Connecticut real estate attorney Enid Scott Wolch. "And surveys bring things to light that title searchers don't find."

In the recent past anyone with even a year-old, out-of-date plot plan for property could get a mortgage. Now banks are requiring more up-to-date documentation of property lines and boundaries. In Maine and Massachusetts, for example, lenders require so-called mortgage sketch plans, which are unofficial and relatively inexpensive surveys that point out new buildings and note changes in apparent boundaries on the property. If such a sketch plan turns up signs of a potential dispute with neighbors—a fence that sits beyond a deed line, say—the bank will require the borrower to get the matter cleared up before any mortgage is issued.

Greg Couch



You might think the answer to disputes over land boundaries lies in the actual deed of the land itself. After all, a basic function of a deed is to document the dimensions of a piece of land. But in certain areas of the country, notably New England, deeds are often documents drawn up generations ago. And "because of ancient boundary descriptions, where they might refer to an old tree or stone wall that no longer exists, there's often a greater likelihood of confusion," says real estate lawyer Nathan Smith, of Portland, Me.'s Bernstein, Shur, Sawyer & Nelson.

But there's an even more important reason deeds don't necessarily prove ownership to land: Over the years common law and state statutes have held that who actually uses a piece of land can be as important as—if not more important than—who a property deed says is the legal owner. That holding, which is known as the law of adverse possession, decrees that if the owner of record ceases to use land and someone else seizes the opportunity to take over possession, and uses it long enough, the court can shift title to the encroacher.

William Raymond found out about adverse possession the hard way in 1983 when he got into a dispute with his neighbor over a 1.3-acre parcel of land on Rhode Island's Block Island. According to boundaries laid out in Raymond's deed, the parcel belonged to Raymond. But his neighbor, Robert Lee, thought it was his. For 25 years Lee and his family had openly ridden horses and picked berries on the land as well as built a road through it and regularly cleared brush from it. When Raymond sued Lee over the contested parcel, he lost. A Rhode Island state court judge ruled in 1983 that, despite what the Raymond deed said, the land belonged to the Lees through the law of adverse possession.

Although its exact requirements vary from state to state, the law of adverse possession generally requires that the land be used openly and continuously by the encroacher for a specific number of years. Such a requirement gives the titled owner adequate notice that someone is claiming his land, as well as time to sue if he wants to hold on to the property. In Maine, for instance, the length of time required is 20 years, while in Rhode Island it is 10. Had William Raymond taken legal action within this period he might have held on to his land.

As property values continue to rise and banks continue to toughen their mortgage requirements, boundary disputes will most likely continue to grow. So if you're looking to plunk down a bundle for a nice piece of property, follow some simple advice. First find your legal boundaries by taking a walk around the property with deed and plot plan in hand. Then, to give yourself full protection, put up a fence. If you don't, you should, at a minimum, keep a close eye on your neighbor's activities: If he makes a habit of using your backyard to store his wood, it may not be long before that yard is his to keep. ■

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"My favorite GM car I worked on was the '54 Buick. Got one for myself and kept it all these years, even after I retired. Every time my son looks at it, he smiles. Very popular at the time, I tell him.

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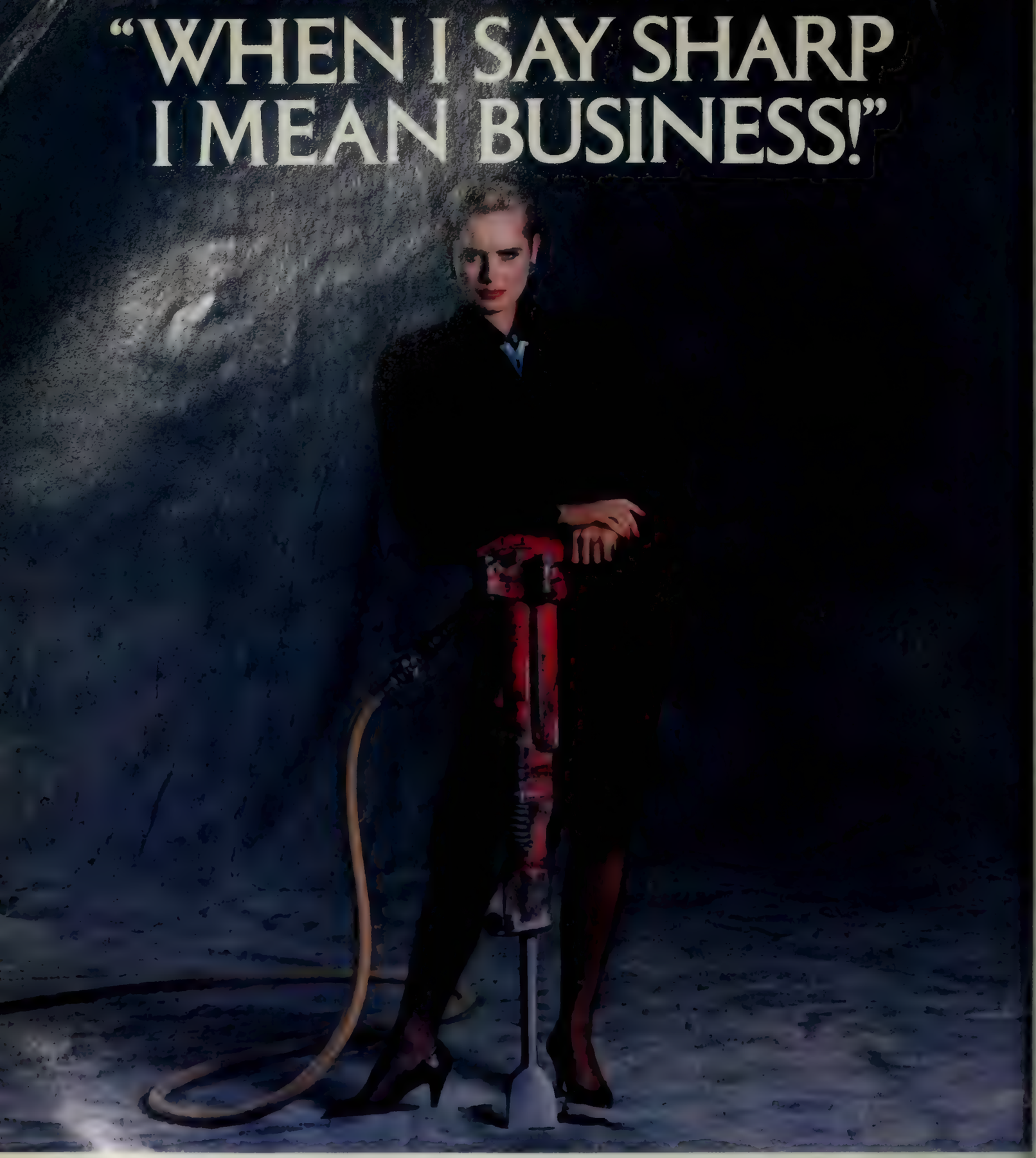

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Webster's Ninth New Collegiate Dictionary defines "covenant" as a "formal, solemn and binding agreement." But Webster isn't an investment banker.

The rape of the bondholder

By Allan Sloan

My word is:

(a) my bond.

(b) my bond, unless I decide to do a leveraged buyout.

(c) my bond, unless I decide I want to take some assets for myself.

(d) my bond, unless I decide I would rather not pay you back.

(e) all of the above.

It used to be that issuing bonds was a serious business. The bond issuers actually intended to pay interest, in cash, as it came due, and to repay the borrowed money when the bonds matured. Bond covenants, which then as now were so excruciatingly dull that almost no one read them, were thought of as "formal, solemn and binding" promises, as per Webster's dictionary, not nuisances to be evaded whenever it became inconvenient to honor them.

Folks who borrowed money and didn't pay it back as promised were as good as ostracized. No one would lend them money again. They couldn't sell any more bonds. They had broken an almost sacred promise.

And then, there's the world of bonds today. A world in which having too high a credit rating can make you a takeover target, so you should eviscerate your equity and pile on the debt before a corporate raider does it for you. Your bondholders don't like having their paper downgraded? Let 'em sue.

Shearson Lehman Hutton sells $1 billion of bonds for RJR Nabisco in January, February and April 1988; then in October helps Chairman F. Ross Johnson plan a leveraged buyout, which drives down the bonds' market value by more than $100 million. Upset because the investment banking house that sold you the bonds trashed the merchandise? Sorry. You bought from the corporate finance guys, we're from merchant banking.

It's a world in which filing for Chapter 11 or just plain defaulting carries no shame. Look at Texaco. It enters bankruptcy, makes bondholders wait for their interest and, when it's convenient, emerges from bankruptcy with a credit rating intact. My word is my bond—that is, unless I change my mind.

Tommy Soloski

Look at the Washington Public Power Supply System, known as WHOOPS, which stiffed the owners of $2.25 billion of bonds in the biggest municipal bond default ever. No shame, no apologies. In late November, even before the last defendant settled the lawsuit generated by the default, WHOOPS says it plans to come to market to raise another $2 billion.

Welcome to the world of bonds, 1980s style—no longer a safe world for widows and orphans, unless they are darned sophisticated widows and orphans.

To be sure, there has always been tension between bond issuers and bond owners. Corporations have a fiduciary duty to their shareholders, and are supposed to give them the best possible deal. Their only obligation to bondholders is to honor the bond covenants. Or rather, that was considered an obligation. Now everything is negotiable.

"Corporations have duties to their shareholders, but only a contractual relationship, the bond covenants, with their bondholders," says Jack Ackerman, head of BondReview, a new company set up to combat bond issuers on behalf of bondholders.

Ackerman, formerly a managing director at Drexel Burnham Lambert's corporate finance department, says that while there are no statistics to measure bond issuer-bondholder disagreements over the years, his impression is that there's more fighting now than usual. He thinks that's because many of the leveraged corporate deals of the early 1980s have matured, and the stockholders want to cash out by selling the company, refinancing it or taking assets out.

Clearly, part of bond issuers' new aggressiveness against bondholders reflects today's "transactional" nature of corporate finance. Once, investment bankers and companies, like swans, were presumed to mate for life. Now, the one-transaction approach, Wall Street's equivalent of the one-night stand, is the norm. One-night stands carry no lasting obligations.

Some of the most interesting transactions have involved one investment banking house, Drexel Burnham Lambert, a house that, more than many, has concentrated on long-term relationships with many of its clients. Drexel

likes to brag that covenants in its high-yield issues are better than those in its competitors' high-grade issues, and that has generally been the case. Drexel has often preached that the firm has an obligation to junk bond buyers, because the buyers "are our franchise."

But the franchise is tattered these days—and not only because Drexel has agreed to cop a felony plea and its junk bond king, Michael Milken, is the subject of endless leaks regarding his alleged misdeeds.

Consider the recent finagling by Nelson Peltz and Peter May to avoid having to live up to the terms of the $748 million of Drexel-financed bonds their Triangle Industries issued last spring. Peltz and May are quintessential Drexel Burnham creations—without Milken and his stable of bond buyers, Peltz and May would still be small-time dealsters instead of centimillionaires.

Last spring's bonds were used to do a partial leveraged buyout of Triangle. The buyout increased Peltz and May's combined stake in the company to 62% from 13%.

Mirabile dictu! Shortly after the bond buyers' checks cleared, Peltz and May—their ownership percentage nicely increased—were talking to Pechiney Corp. of France about selling Triangle, and Pechiney offered $56 a share, more than five times the market price. A bonanza for shareholders. Especially for Peltz and May, who got not cash but $834 million of ten-year, iron-clad promissory notes, a maneuver that lets them cash out by borrowing against the notes but defers capital gains taxes for ten years, until the notes come due.

Drexel did well, too—the stock purchase warrants it got last summer for peddling the bonds suddenly became worth some $14 million.

What of the bondholders? That's another story. They were the suckers in the deal. They had just bought high-yielding (13.5% to 15.5%) paper in a single-B credit company—they were taking a risk but were compensated by the high yield. However, because Pechiney is owned by the French government, it's a single-A-quality borrower or better.

Pechiney saw no reason to go on paying up to 15.5% when it could borrow long term for 10.5%. (Triangle's debt was $1.8 billion at an average of 13%; the difference between this cost and the 10.5% rate Pechiney could borrow at comes to about $45 million a year.) Peltz and May agreed to pay the excess unless they could get 85% of Triangle's bonds tendered to Pechiney within six months.

But most of the latest Triangle paper could not be called for redemption for four years—or so it would appear. No big problem in these days of evadable indentures.

Now watch. Under the direction of Peltz and May, whose money was actually at stake, Pechiney designed its deal to avoid triggering the new Triangle bonds' merger covenant, which is supposed to make sure that the company can't be sold if bondholders are worse off after the sale than before. How to get around this? Pechiney said it would buy Triangle's equity but not merge with the company, thus evading the merger covenant. Pechiney also said it wouldn't assume liability for Triangle's bonds.

Playing hardball, Pechiney first offered absurdly low prices—ranging from 92% of face value to 101%, depending on the issue—for Triangle's bonds, then agreed to settle for 106% and 108% on some of the new bonds, and from 92.5% to 102% for the rest. The bondholders did okay—but they didn't realize all the economic value of their bonds, some of which were worth at least five points more than that on strict economic terms. In effect, Peltz, May and the other equity holders got more money for their equity by leaving less for the company's bondholders.

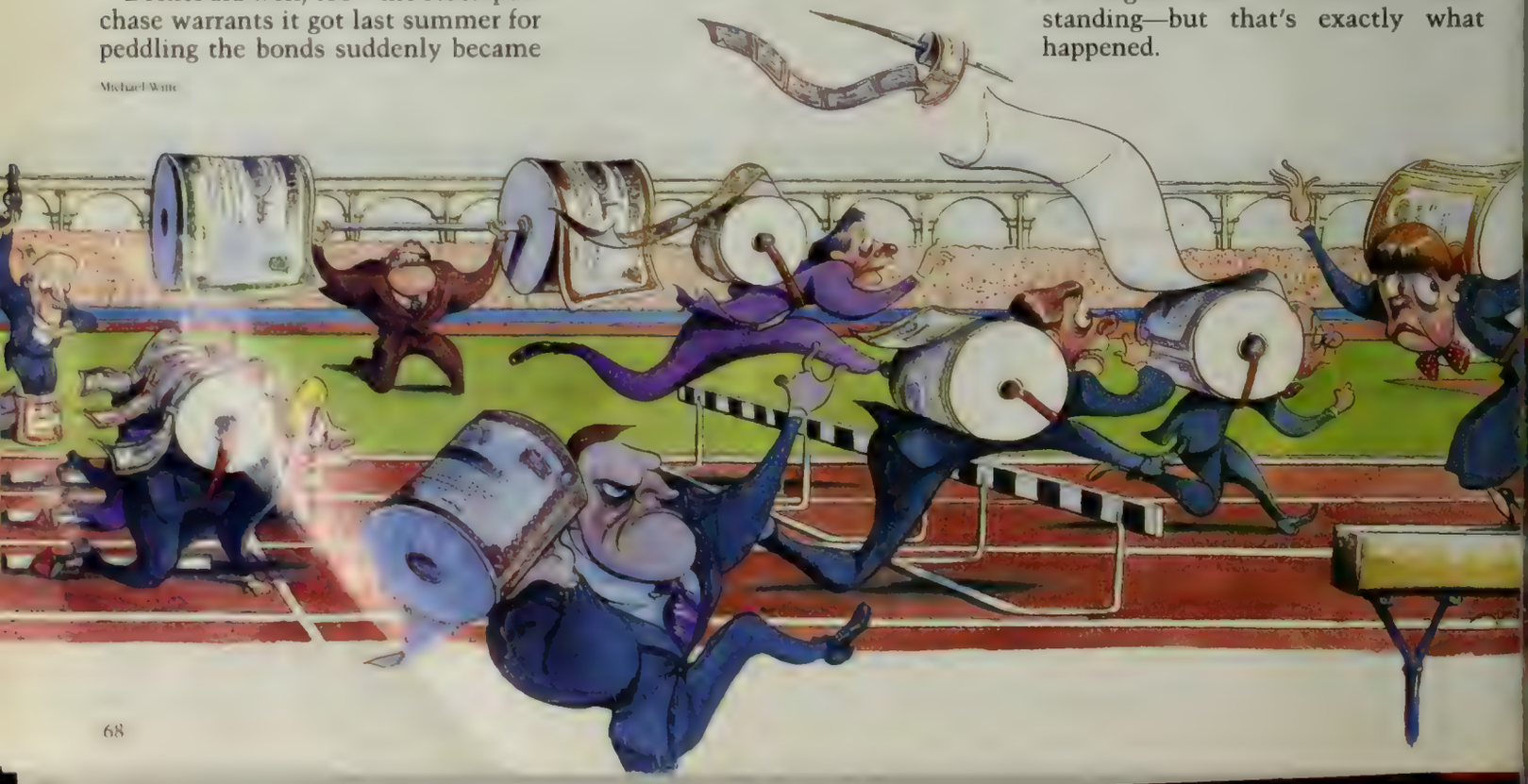
Will Peltz and May be blackballed forever from the junk bond market because of this? Nope. Three Triangle bondholders we talked to, all of whom declined to be publicly identified, said that what Peltz and May did was simply par for the course these days. Bonds have become very much a buyer-beware game.

Now check out the strange saga of E-II Holdings, which has $1.5 billion of bonds outstanding. You've read about some of the squabbles surrounding the company, which went into business in July of 1987 as an offshoot of the Beatrice Cos. leveraged buyout run by Kohlberg Kravis Roberts & Co.

In addition to the bonds, E-II issued 20.7 million new shares of stock at $15. E-II owned a grab bag of 15 Beatrice businesses, but its main assets were intangible: the dealmaking prowess of Chairman Donald Kelly and the reputations of Kohlberg Kravis Roberts and Drexel Burnham, E-II's major shareholders.

Since everyone expected Kelly to do lots of wheeling and dealing with the assets, the bond covenants were drawn very loosely. No one anticipated that Kelly, KKR and Drexel would all be gone but the bonds still outstanding—but that's exactly what happened.

Michael Witte



To give you the short version, E-II wasn't profitable enough to service the $1.5 billion of 12.95% (average cost) bonds, and Kelly couldn't sell the already marked-up assets at a big enough profit to make things go. So he raided American Brands, which has huge cash flow from its tobacco business, and ultimately sold the company to American Brands dear because he wasn't able to buy American Brands cheap.

American Brands paid $17.05 a share. A decent profit for public stockholders who had bought at $15 in the public offering seven months earlier, but a huge score for KKR's investors (whose cost was around $3 a share by our analysis) and a stupendous one for Drexel Burnham. Drexel and "certain employees" had picked up about 10 million shares for essentially nothing, giving them a $170 million pretax profit.

What about the bonds? Don Kelly was gone, but American Brands, a single-A borrower, looked like a good deal—so good that bondholders declined to tender their bonds when E-II's new owner offered them up to 104 cents on the dollar. Remember that American Brands had bought the company without triggering the merger covenants, à la Pechiney, and said that it wouldn't assume liability for E-II's bonds.

Get this. First, American Brands bought some assets from its E-II subsidiary for cash. This didn't trigger the "no dividend to the owner" covenant because the cash American Brands put into E-II was of "equal or greater value" to the businesses it took out. Then American Brands shuffled off E-II to Meshulam Riklis, one of Drexel Burnham's favorite clients, one of Mike Milken's longtime friends and admirers and one of the few people allowed to rent office space at 9560 Wilshire Boulevard in Beverly Hills, where Drexel's West Coast junk bond operation is housed. Drexel says that it did not bring Riklis and American Brands together.

Riklis, too, bought E-II without triggering the merger covenants—great draftsmanship, Drexel! E-II's bondholders were stuck with Riklis, and their bonds declined from a quoted price of 110 under American Brands to the 80s, and recently to the 70s. Once again, the stockholders made out like bandits, and partially at the expense of the bondholders.

The good news was that even though Donald Kelly and KKR were by then long gone, E-II still owned over $1 billion of cash and a bunch of businesses. Surely that was enough to satisfy $1.5 billion of bonds.

That is, until Riklis trashed two companies' bond issues in the same maneuver. First, he took Faberge, a toiletries business, out of Rapid-American Corp. (FORBES, *July 25, 1988*); whose bonds carried supposedly strict covenants. He satisfied the "no-dividend" covenant in the Rapid bonds by giving Rapid an asset of "equal or greater value": $155 million of preferred stock in a Riklis family corporation. He then sold Faberge to E-II for $925 million of cash, neatly side-stepping the "no dividend" covenant by proclaiming that Faberge's value was "equal to or greater than" $925 million.

The lawsuits are still flying on that one—but no one seems to be going after Drexel, which presumably has some obligation to look after the merchandise it sold.

"You have to remember that whatever bond covenants you may have, it's the common shareholders who own the cash, and they are not going to use it for the benefit of the bondholders," says Marko Budgyk, a vice president at Houlihan, Lokey, Howard & Zukin, a Los Angeles-based valuation firm.

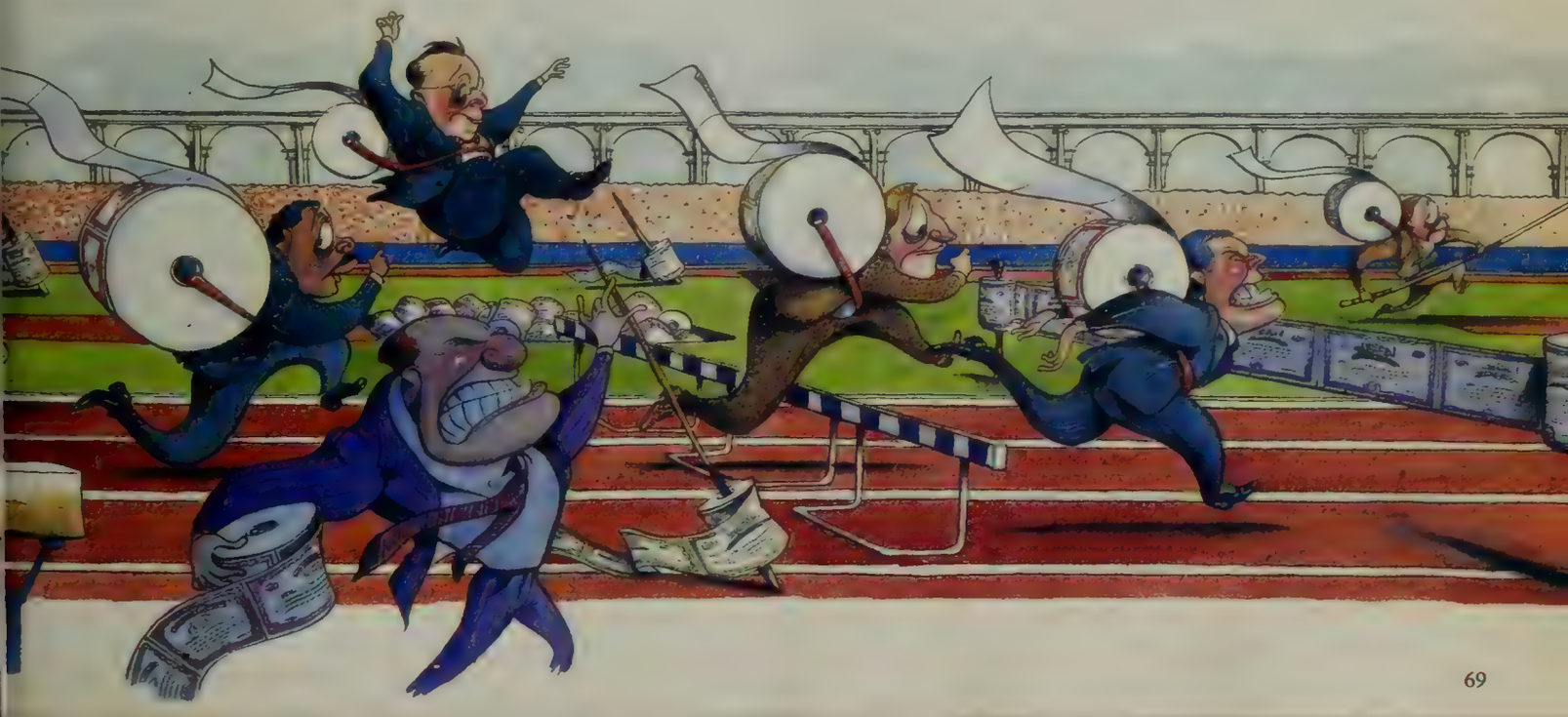
We could go on for pages. Drexel is by no means the only player. Salomon and Merrill, Lynch have stakes in floundering LBOs and now are asking bondholders to take losses—but aren't offering to return their fat fees. Morgan Stanley has developed a tidy sideline advising junk issuers how to get around covenants.

The story is always the same: The bondholders put up most of the money, but not only do they almost never share in the profits, they don't even always get their money back.

The proposed solution to this problem of victimizing bondholders is the so-called poison put—a high-powered indenture that gives bondholders the right to be cashed out if there is a significant change in the company's financial structure or management control. But even some of these are less than they appear to be.

One of the "poison put" bonds—the $200 million of 12.25% senior subordinated notes issued by McDermott Inc. and underwritten by Merrill and First Boston—has a huge loophole. The loophole allows McDermott to be sold without triggering the put, provided the board of directors approves the deal. That, of course, makes the put virtually worthless, since boards will always approve deals, even if they began as hostile ones.

What's a bondholder to do? Wise up. Treat bonds like stocks. Don't file them and forget them—keep alert for change. If you are an institutional investor, demand that dealmakers give you a piece of the action. Bonds are not what they were—and never will be again. ■



Asia's Four Tigers have flooded America with imports for nearly a decade. Why did Washington wait so long to revoke their special tariff advantages?

Taking the Tigers off the dole

By Edwin A. Finn Jr.

AMONG THE BIGGEST contributors to the U.S. trade deficit are the Four Tigers of Asia: Hong Kong, Singapore, Taiwan and South Korea. Together these tiny countries accounted for about $31 billion, or about one quarter, of the U.S trade deficit last year.

As developing nations, the four were granted trade preferences by the U.S.; as rapidly industrializing societies, they have continued to enjoy those privileges. Now the party is over. As of Jan. 1, the Four Tigers have lost their tariff waiver; so they are being treated just like France, Great Britain, Germany or Japan—as well they should. The end result will probably be increases ranging from an insignificant 2% to a formidable 15% or more in the U.S. selling prices of products made in those countries.

Revoking the Tigers' special tariff advantages may help a new group of poor countries pull themselves up by the bootstraps. With manufacturers in Taiwan, Hong Kong, South Korea and Singapore now subject to all U.S. tariffs, many entrepreneurs in those countries will very likely move operations to low-wage countries like Mexico, Thailand, Malaysia, Indonesia and the Philippines, which continue to remain at least partly exempt from U.S. tariffs. This is most likely to happen with products that are particularly price-sensitive, such as electronics. Already the Japanese are expanding manufacturing operations in some of those countries as a buffer against the strong yen.

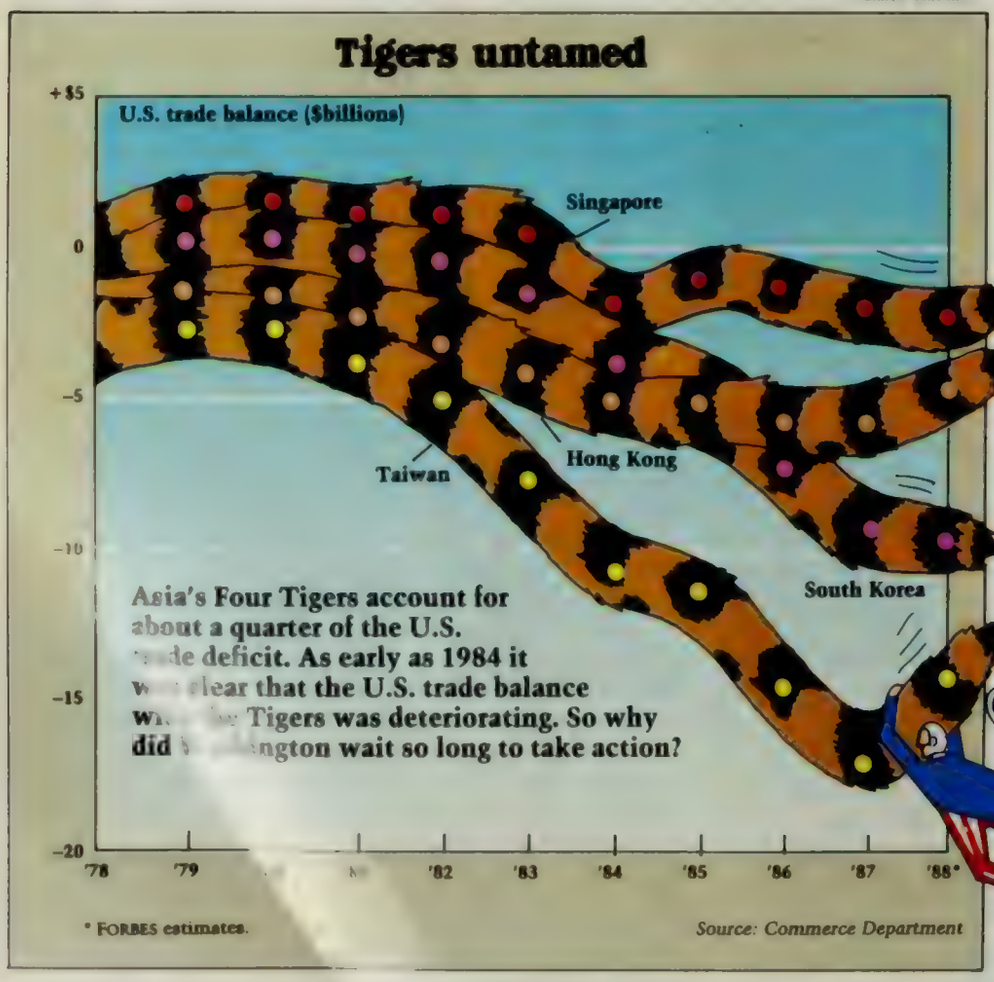
But will a rise in the tariff barrier for the Four Tigers actually result in a measurable decline in the U.S. trade deficit? Probably not. The U.S. no longer makes many of the products the Four Tigers have become famous for—VCRs, color TVs, cheap toys. Explains Harold Grunfeld, senior partner of the New York trade law firm Grunfeld, Desiderio, Lebowitz & Silverman, "Tariffs of 2% to 15% just aren't enough to get companies to move their factories to the U.S. American wage rates are too high."

Collectively the Four Tigers exported nearly $60 billion of goods to the U.S. last year, up from some $15 billion a decade ago. This trend was obvious as long as five years ago when the U.S. began to fall into deep deficits on its trade accounts with the Tigers *(see chart)*. So the question is, why did Washington wait so long to take action?

Congress proposed ending the Tigers' tariff advantages as early as 1984. But the executive branch ignored congressional complaints until early 1988. At that point, Washington trade sources say, Treasury Secretary James Baker—miffed that the Tigers were keeping their currencies so cheap against the dollar—appears to have used the tariff issue to twist their arms to revalue their currencies upward. Soon President Reagan joined in and last spring decreed that the Tigers' tariff exemptions would end Jan. 1.

The action obviously should have been taken earlier. Even at this late date, foreign economic policy seems to be taking a back seat to other considerations—as though U.S. economic power were still limitless. The U.S. clearly needs to be more aggressive in reviewing countries getting tariff advantages. If a new generation of economic Tigers emerges by 1995, Washington shouldn't wait until the year 2000 to take them off the dole. ■

Andrew Christie



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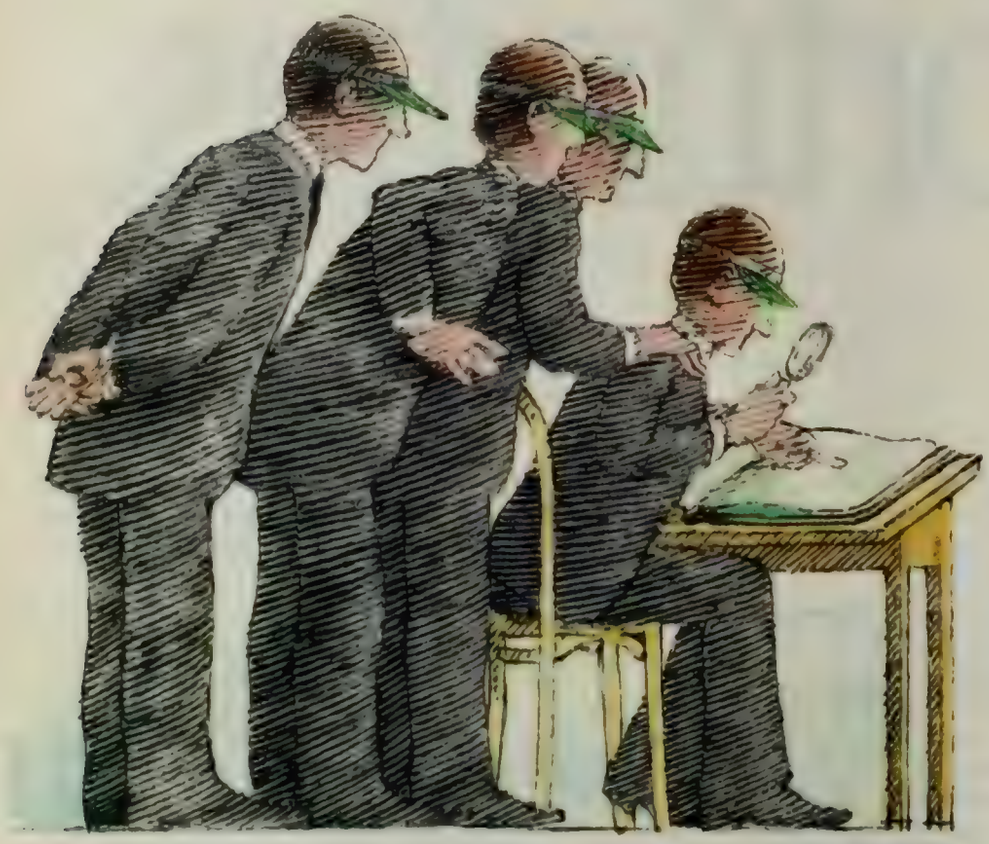
Nasty surprises



Chris B. Slackman

By Penelope Wang

MANUFACTURED HOMES, INC. looked like a steady winner for most of 1987. In the first nine months the North Carolina prefab house manufacturer reported pretax earnings of $10.6 million on sales of $148.2 million. But in its fourth quarter the company abruptly booked an enormous $8.5 million loss reserve for credit sales, wiping out those earlier quarterly earnings and ending the year with an anemic pretax $1.6 million.

Was management as surprised as investors? No. Manufactured Homes had been understating its potential credit losses. The outside auditing [illegible] of Peat Marwick Main & Co. believed that to be the case months earlier, and had urged an increase in loss reserves. Management resisted—and management got its way, since corporate quarterly, or 10-Q, reports, unlike annual reports, do not require auditor approval. Come the fourth quarter, the company at last had to bite the bullet. Says Glenn Perry, partner at Peat Marwick, "If we had a requirement to formally review quarterly data, we wouldn't have had a surprise fourth-quarter adjustment."

The situation at Manufactured Homes is not unique. "Misleading quarterly statements have been a persistent problem, particularly among smaller companies," says Glen Davison, deputy chief accountant at the Securities & Exchange Commission. Indeed, last year the SEC took enforcement actions against several companies, including Stereo Village and Cali Computer Systems, largely because of false or misleading quarterly reports.

But these actions were taken after the horse was gone; now the SEC is preparing to close the barn door. In the next month or so the commission is expected to release a proposal requiring that all quarterly reports be "reviewed" on a timely basis by outside auditors. The rule could go into effect as soon as early 1990.

What does the SEC have in mind when it says "review"? As commission officials explain it, outside auditors would check the numbers in quarterly statements and, based on prior auditing experience with the firm, would then question senior management about items that seem out of line. Such problem areas might include unusually large inventories compared with year-ago figures, or steadily increasing accounts receivable. The SEC proposal, in addition, would require the auditors to submit a letter saying that the numbers were reviewed, which would be included on the 10-Q report.

Unlike a full-scale audit, a quarterly review would not require accountants to examine documentation or seek third-party corroboration about management's numbers. Nonetheless, the SEC proposal is an important step in the right direction to tighten lax reporting rules. Currently, only large, actively traded public companies must publish audited quarterly data, and at that, only once a year in their annual 10-K financial reports to shareholders. Gaylen N. Larson, group vice president of Household International, comments: "The key is simply to encourage outside accountants to discuss judgmental issues with senior management."

Will this prevent future unpleasant surprises? Not all of them. "Even audits can fail to turn up fraud or mismanagement, so how can a review make a difference?" asks Thornton O'glove, publisher of *The Quality of Earnings Report*, an institutional research newsletter. "Too often auditors are ready to sign off on anything that seems halfway reasonable." Moreover, many smaller companies complain that the increased costs of the review effort would outweigh any benefits.

There is some slight merit in these complaints, but not much. In these days of jumpy markets, unpleasant surprises can cost investors dearly, souring them permanently on the stock market. "The value of the quarterly is becoming just as important to the public as the annual report," comments Household's Larson. "So why not spread out the auditing effort through the year rather than just at the year-end?" ■

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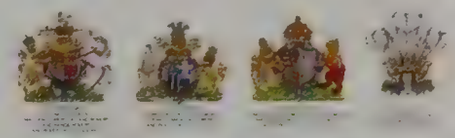

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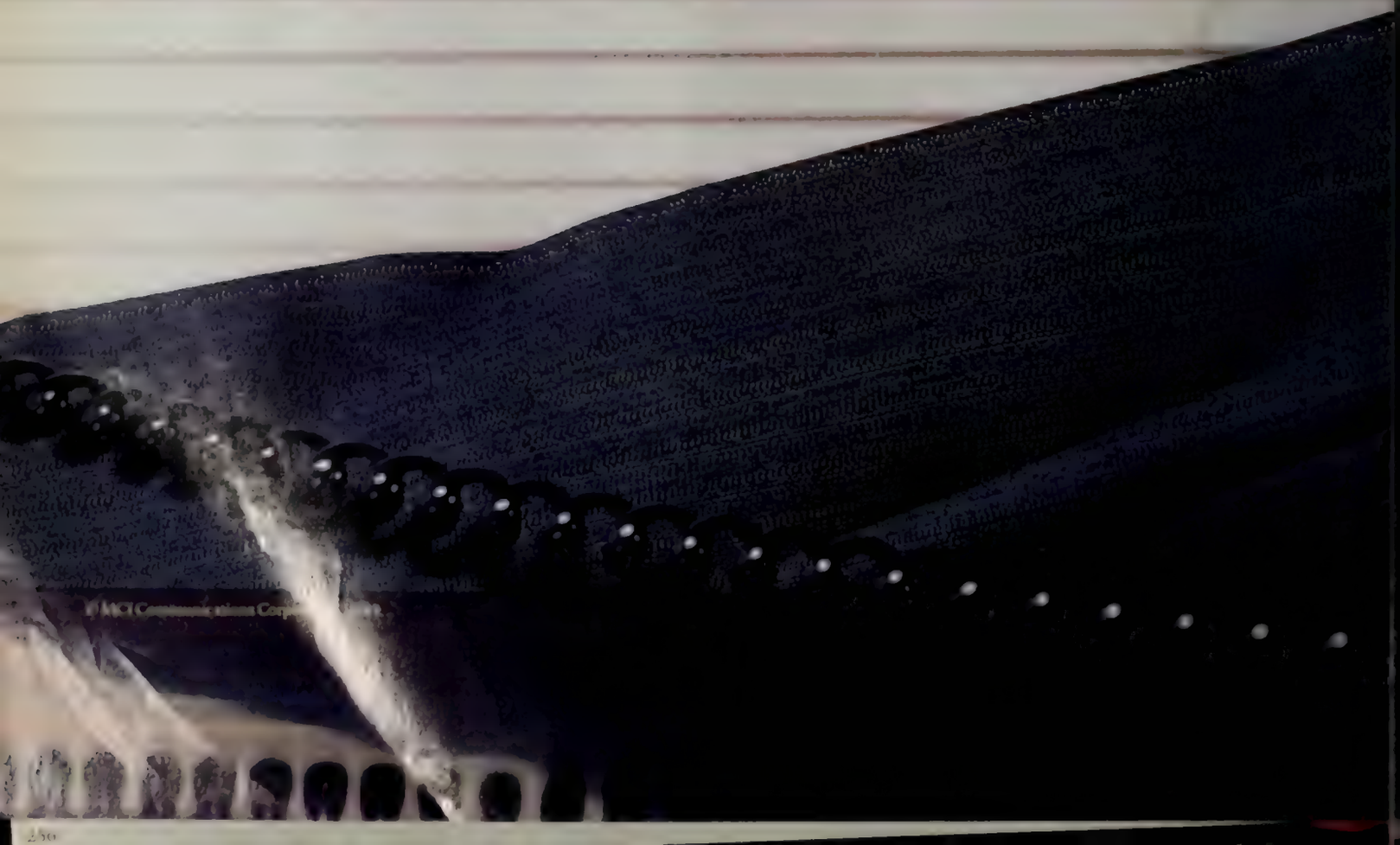

MCI

Caught between an emerging European Common Market and a withering Eastern Europe, Austria faces a difficult future.

Goering's legacy

By Peter Fuhrman

UNTIL THE NAZI TAKEOVER of Austria in 1938, Linz was a small agrarian trading town on the Danube where Adolf Hitler, Austrian by birth, planned to retire. Seeking to curry favor with his Fuehrer, and borrowing heavily from the forced industrialization policies of Joseph Stalin, Hermann Goering set about transforming Linz into an industrial center for the Thousand-Year Reich. (Who but a National Socialist would want a steel mill in his retirement home's backyard?)

On the eastern outskirts of the town, Goering built the huge steel plant, modeled on those in the Ruhr. Next door, I.G. Farben, the Nazi chemical cartel, built Austria's first large chemical plant. Bucolic Linz became a sooty industrial town.

Andrew Christie

Linz' Nazi-built steel and chemical complex still sprawls beside the Danube.

The assets Goering built are still functioning, now owned by Oesterreichische Industrieholding AG—OIAG for short—a huge, state-owned holding company.

OIAG is a huge burden for this otherwise thriving nation of 7.5 million people. Its revenues are $12.5 billion, but since 1980 OIAG has run off eight consecutive years of losses, $650 million last year alone. Expressed in relative terms, it is as if the U.S. government were spending over $20 billion a year to keep a couple of dilapidated factories in operation.

OIAG is a study in the foolishness of massive economic planning. With the defeat of the Third Reich, Linz was left with industrial capacity far out of proportion to Austria's postwar needs. Instead of closing down the white elephants, Austria kept them going to provide jobs. By the mid-Seventies more than 4% of Austria's work force was employed at plants owned by the tumbledown state-owned combine. This was at great expense to the Austrian economy: $5.4 billion in government grants and subsidies to OIAG in just the last seven years.

To keep OIAG afloat, Austria's former socialist chancellor, Bruno Kreisky, borrowed heavily from foreign banks and plowed the proceeds into OIAG's lossmakers. During Kreisky's 13 years in office, Austria's debt rose tenfold. The country's economy, once among the fastest growing in Europe, gradually ran out of steam. Kreisky brooked no criticism of his socialist white elephant; even OIAG's board was forbidden to intervene in the government's reckless management of the company.

Says Hugo Sekyra, a former paper company executive who was brought in to reorganize the company in 1986: "Whenever there was a dispute with one of OIAG's unions, a shop steward rushed to phone Kreisky, who would then impose a solution favorable to the unions."

Sekyra adds: "This is a company that produced five Austrian schillings for every ten you gave it."

It got worse. An OIAG subsidiary, attempting to cover losses in steel manufacturing, lost $350 million speculating in oil futures. Another subsidiary illegally sold $300 million in arms to the Iranians. OIAG's loss in 1985 topped out at $1.1 billion.

With Kreisky in retirement, the new socialist government, under former banker Franz Vranitzky, loudly pledged to restore OIAG to profitability. How? By pouring in more money. The Austrian parliament agreed to

Chris Niedenthal

Hugo Sekyra, chairman of Austria's state-owned OIAG conglomerate
Is the solution politically acceptable?

Jacques Langevin Sygma

Austrian Chancellor Franz Vranitzky
Pledges, but no profits.

furnish OIAG with $2.8 billion in new capital and brought in Hugo Sekyra as the new chairman.

This year, with Austria's economy humming along nicely, thanks to a prospering West Germany, OIAG's operating loss will fall to around $240 million, down from $650 million last year. Sekyra is predicting that OIAG will break even in 1990.

At the bloated steel company Voest-Alpine, the largest company in the OIAG hamper, Sekyra let go 2,000 middle managers, including political appointees. Additionally, management salaries are now being tied to profit performance.

Sekyra is now talking about privatization, by floating 20% to 30% of the holding company's shares in 1990. But the problem is not so easily shed. Both major parties in Austria want the government to keep majority control of OIAG. The government, chary of foreign ownership of Austrian companies, will sell only as many shares as it thinks its citizens will purchase—probably not many. Austrians are not stock market investors.

OIAG, as feeble as it is, still accounts for more than 10% of Austria's gross national product and almost one-fifth of Austria's exports. And the Austrian economy's future is in question. Most business leaders want Austria to apply for membership in the 12-nation European Community. However, the Soviets are a signatory to the 1955 treaty granting Austria its independence. This treaty forbids neutral Austria from entering into any "political or economic union whatever with Germany." Thus, the Soviets might well veto an Austrian bid to join the European Community.

Would they? Fearful about sending the wrong signal to their volatile Eastern bloc satellites, the Soviets are nervous about allowing any change in Austria.

Austria, in short, faces the prospect of getting caught between a protectionist European Community and a withering Eastern Europe. There are still 90,000 workers on OIAG's payrolls, many of them working for factories that will never be profitable and should be put into bankruptcy.

Yet Austria's politicians, like those in neighboring Eastern European countries, are insisting that economic restructuring be accomplished without adding to unemployment. "My message to the government is quite simple," says Hugo Sekyra. "If OIAG is ever to be profitable, the politicians will have to stop interfering in its business."

In an increasingly capitalist world, even small, prosperous countries like Austria can no longer afford the wasteful luxuries of socialism. ■

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In Touch with Tomorrow

TOSHIBA

Here is a truly revolutionary book. It says poor countries stay poor, not because of capitalism but for lack of it.

The right path

Author Hernando de Soto
Capitalism, not socialism, is the true revolutionary force.

Carrie Boretz

By Ronald Bailey

In its 1989 *State of the World's Children Report*, the United Nations Children's Fund departed from its high-minded purpose to indulge in a nasty bit of capitalist-bashing. "Over 900 million people—mostly women and children—are worse off than a decade ago," reads the press release accompanying Unicef's heavily promoted report. And who's to blame? Why, cold-hearted bankers, of course. All those poor folks are hungry, the Unicef flackery proclaimed, "because debt payments by the world's poorest nations have drained funds from essential health and educational services.

Propaganda garbage like this discredits Unicef and the entire U.N., but it does something far worse: It encourages the developing countries to blame their problems on outsiders rather than shouldering their own responsibilities for their ills. Statist societies predominate in the poorer countries, whether the rulers are military dictators or so-called Marxist-Leninists. The governments strangle individual initiative, then blame the inevitable lack of economic growth on bankers and the like. Unicef encourages this Johnny-pushed-me attitude.

Hernando de Soto, a Peruvian, says: nonsense. Much Third World economic illness is self-imposed. His book, *The Other Path. The Invisible Revolution in the Third World* (Harper & Row, $22.95), has been a bestseller in Latin America and appears here this month in English translation.

The book has stirred wide debate in Latin America and has shaken many of that area's intellectuals out of their comfortable anticapitalist attitudes. De Soto says simply that Peru's poverty—and by extension the poverty of many poor countries—is caused by its own leadership, which prevents the struggling masses from creating wealth. Capitalism has not failed Peru; Peru and most other developing countries have never tried capitalism.

His case is strengthened by the undeniable fact that the few developing countries that have embraced capitalism—South Korea and Taiwan, for example—have shot way ahead of the others in wealth and well-being.

De Soto, an economist and businessman, rejects both the political left and the traditional political right as it exists in Latin America. Both, he writes, are fundamentally statist. *The Other Path*, his book's title, is a clever reference to a Peruvian Marxist terrorist cult called the Shining Path. The other path—the path not taken—is genuine capitalism, genuine dependence on individual initiative.

Hernando de Soto was raised in Peru and educated there and in Switzerland. He told Forbes that he always resented the attitude, prevalent among Western intellectuals, that poor countries were culturally unsuited to capitalism. De Soto, a shrewd observer, thinks that individual initiative is the natural way for people to take care of their economic needs.

"It made me very angry to be told that I was culturally inferior, culturally not suited to the market economy system," De Soto told Forbes during a New York visit a year ago. "Behind the arguments of the traditional [economic] development crowd," he added, "there's always racial prejudice."

De Soto worked in Switzerland until 1979. But the problem of persistent poverty in his native land haunted him. Instead of turning to traditional textbooks for an answer, or to Marxist "science," he began walking the streets of Lima. What did he find? That nearly half of Peru's work force lived and worked outside the formal system of Peruvian law. The law, whether administered by right- or left-wingers, simply excluded them. There were no jobs for them, no room for them in formal trade unions; they could not get licenses to peddle on the streets. Yet they did not starve. They ran transport services without licenses, peddled illegally on the

streets, built makeshift houses on state land—somehow survived.

"Those who are poor," De Soto writes, "are forced to engage in essentially honest activities such as building, trade, industry, or transport without the protection of the law." De Soto calls those people and their activities "informal" rather than "black market," since the latter term has unsavory, antisocial connotations.

Note that he is not talking about the kind of black market economy that exists in the U.S. and other advanced countries, which involves either criminal money or money circulating outside the tax system. He is talking about people who practice individual initiative without benefit of the law—a system of law that forbids them to do what they must to survive. They break the law, not because they want to, but because they have no other way to live.

Why must millions of poor Peruvians—and hundreds of millions of impoverished people throughout the developing world—live outside the law? Because, replies De Soto, their military and civilian leaders subject them to a precapitalistic mercantilism in which a small elite controls a legal system designed to reinforce the privileges of that elite. Not all of the elite live in grand haciendas. Some sit in government offices, work in trade union jobs, benefit from protected monopolies, wear military gold braid. An Argentine railroad worker who draws a salary for doing little or nothing is part of the protected elite even though he or she doesn't have a huge income; his or her privilege is at the expense of the taxpayer and the ordinary Argentinean.

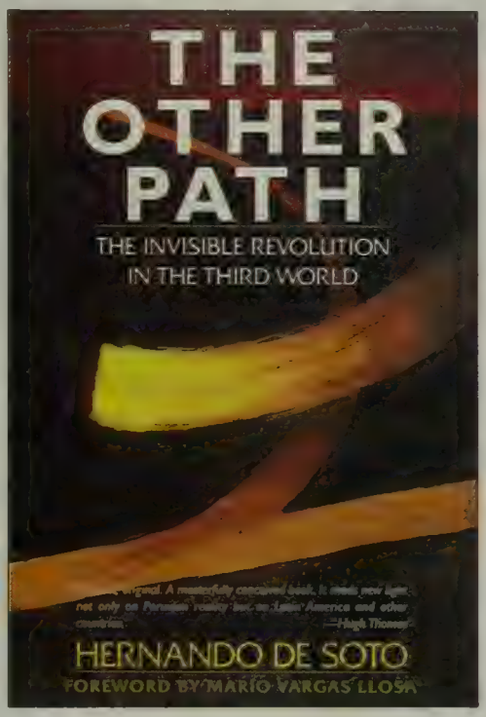
Peru's bureaucracy now spews out some 27,000 new laws per year—over 70 per day. In Peru, as in much of the Third World, competition is not for markets but for government favors and privileges.

Does some mass moral failing explain the pervasive corruption that is often blamed for Third World poverty? Not at all, says De Soto. The administered, arbitrary mercantilist system itself breeds corruption. As De Soto put it to FORBES, "You can buy and sell the law." He notes that setting up a legal sewing business in Lima, for example, required 289 days, 2 bribes, 11 permits and cost a total of $1,231. That amount was 32 times the monthly minimum living wage.

This, says De Soto, is not capitalism but mercantilism—an inheritance from the Europe of the 16th to 18th centuries. The poverty of mercantilism persisted in Western Europe until the capitalist revolution gathered steam in the 18th century; it can be seen in the Soviet Union and throughout the Third World today.

"Mercantilism was a politically administered economy in which economic agents were subject to specific, detailed regulation," writes De Soto in *The Other Path*. "European mercantilism was characterized by the close ties that existed between an ever present state and a privileged and exclusive entrepreneurial clique."

What is mercantilism? We have some of it in the U.S. Rent control, for example. By law it assures cheap



housing for a privileged minority and discourages investment in residential property; helping a relative few, it freezes out the majority. We used to have much more: exclusive routes for airlines and truckers, union domination of construction to the exclusion of outsiders. Fortunately for the U.S. standard of living, mercantilism is fairly rare here.

In this context, capitalism, not socialism, is the true revolutionary force, upsetting neat, restrictive arrangements, causing many to fail and others to succeed but creating wealth and spreading it.

What has happened in Peru, De Soto writes, is that free enterprise has grown up spontaneously on the fringe of the mercantilist system. De Soto estimates that the informals contribute almost 40% of Peru's gross domestic product and over 60% of the hours devoted to work. Most inhabitants of Lima get around on transport run by people and organizations that are theoretically extralegal.

De Soto shows that by staying alive and striving to improve their standard of living, Peru's informals have been eroding the foundations of Peru's mercantilist society. Authorities have had to make some grudging accommodation to the informal operators; otherwise the economy would already have collapsed. Urban street vendors, for example, whose activities are still illegal, are left largely alone if they pay "excise" taxes. Much red tape has been eliminated from the process of establishing informal neighborhoods. And informal bus operators can eventually get their routes officially recognized by a ponderous process. Call it a quiet capitalist revolution.

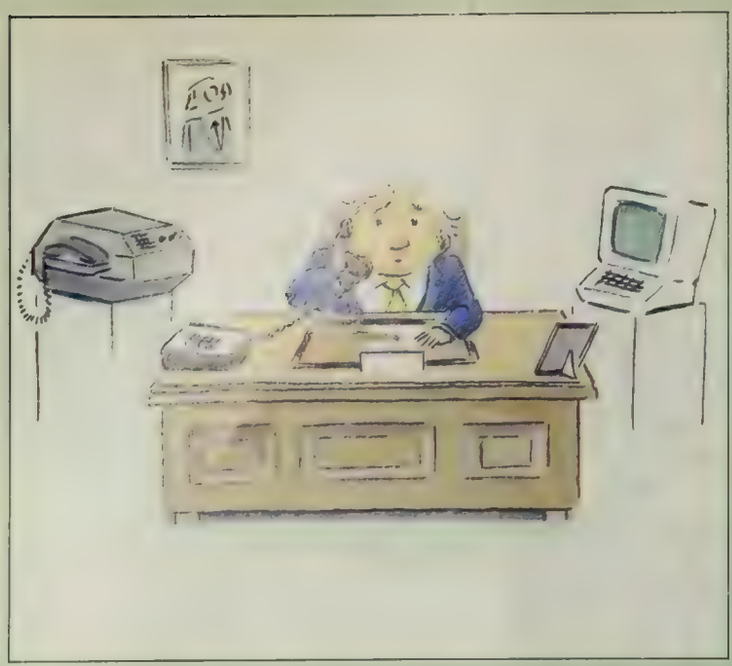
Why doesn't the ruling elite in Peru and in other poor countries stop this spread of "illegal" enterprise? In Marxist-Leninist dictatorships like Cuba and the Soviet Union, they largely succeed in driving individual enterprise underground through terror. However, right-wing authoritarian governments rarely are prepared to use that level of violence.

American bankers and politicians are worried about Latin American debt. But are they doing the right things? No, De Soto says. They should pay less attention to politics—which party wins or loses at the polls—and put pressure on the governments to bring the informals into the regular economy, to get out of the way and let individual enterprise flourish.

De Soto's book—which is a surprisingly easy read—is light on theory and strong on concrete detail about how individual enterprise among the poor is doing more for them than all the state programs. Encouragingly for the cause of freedom, De Soto has caught the imagination of many of Latin America's traditionally anticapitalist intellectuals.

In Mexico and in Argentina people who have been influenced by De Soto are making similar studies of their countries' burgeoning extralegal economies. People are also looking to the work of London School of Economics professor Peter Bauer, who made similar discoveries about poverty and development in Africa (FORBES, *Feb. 22, 1988*).

If those people at Unicef really want to help the children of the poor countries, they might stop their sterile banker-bashing and start listening to people like Hernando de Soto. *The Other Path* is a major work, one destined to change the way the world understands wealth and poverty. Beyond Keynes, beyond Marx, it gets to the heart of the economic paradox of spreading poverty in an increasingly rich world. ■



Computers/Communications

Wonders of technology brought cheap communications. Great, but one consequence is a bad case of information overload—a nuisance for consumers, a headache for marketers.

Prepare for E-mail attack

By David Churbuck

DIRECT MAIL OPERATORS send so many "urgent" mailgrams that most people don't even open the envelopes now. Solicitors hit you at night with so many phone solicitations that you shelled out the extra bucks for an unlisted number. Then they got through with random dialers. So you bought an answering machine. And now they've invaded your computer and your fax machine with junk mail. Is there no peace?

This is the information age that the futurists talked about, the day when telephone technology, fax machines and electronic mail would make communication cheap and plentiful. Too plentiful.

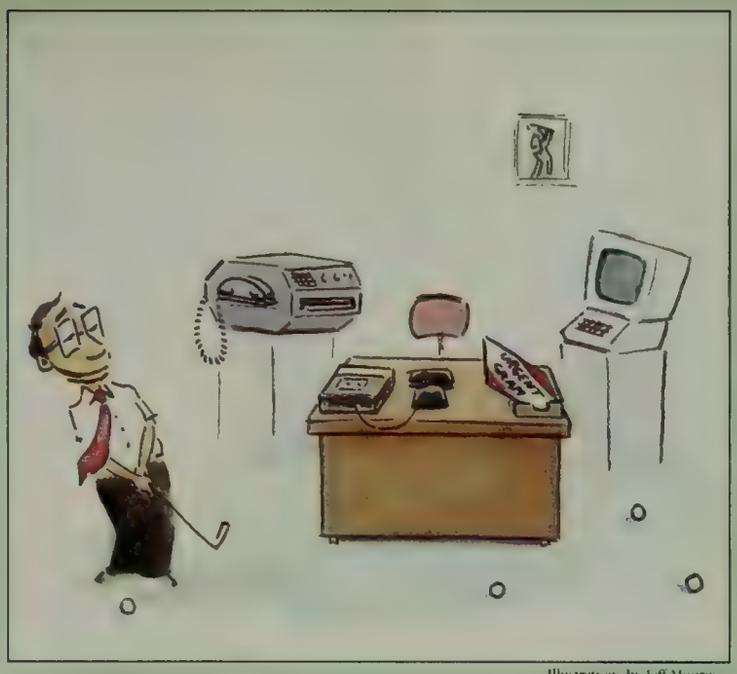
Says Mitchell Kapor, the former chairman of Lotus Development Corp.: "It's a well-known phenomenon in large corporations that when you come back from a long weekend you'll find 50 pieces of electronic mail in your mailbox, spend hours going through it, and end up with most of it being stuff you don't want to see." Kapor protects himself at home with an unpublished telephone number, and opts for a public electronic mail address for his computer. Yet the unwanted messages still come through.

So many unwanted messages are floating around that the wanted ones sometimes get lost in the shuffle. And so we have what could perhaps be called a war of access, fought on a battleground of chips and software. Everyone, it seems, is screaming for your attention. Among the callers' weapons are electronic white pages, power dialers that can do 20,000 calls a day, and systems that hunt down unpublished fax numbers.

Defensive strategies? These include PBX switchboards with software to route unwanted calls into answering machines and call blockers that reject calls from specific unwanted numbers. Tomorrow's strategies will include software that filters out sales pitches from electronic mail by looking for telltale words like "insurance" and "financial planner."

The ultimate gatekeeper for the busy executive or the very private individual is, of course, another human being. But secretaries and butlers are expensive. For most people, then, the answer to junk communications will be found in call blockers, software filters and screening devices that enable communication targets to dig an electronic moat around themselves.

The roots of this emerging electronic warfare are to be



Illustrations by Jeff Moores

found in the very success of semiconductors, which have made talk cheap. But with information, more can be less—a phenomenon once quantified by MIT Professor Ithiel de Sola Pool. Tracking various media from 1960 to 1977, De Sola Pool found that there has been a rapid growth (9% annually) in data made available in the form of periodicals, television, radio, phone calls, mail, faxes and telexes. At the same time there has been a much slower growth (3% annually) in data consumed. Out there at the margin, in short, only about a third of the extra information is getting through. We are suffering from information overload. The transmission of information, while becoming cheaper, is becoming less efficient. The De Sola Pool study concluded that even while transmission costs are dropping, it is costing more to send a message and have it sink in.

While senders are spending more to reach out, some receivers are spending more not to be touched. Survey Sampling, a Fairfield, Conn. research firm, says 28% of all U.S. households have an unlisted number. Los Angeles is 56% unlisted.

New Jersey Bell, which already charges customers $12.50 a year for the privilege of not having their numbers published, is offering another defense this year, Caller ID, in some parts of its territory. For $78 a year plus a onetime charge of $60 for a readout device, a residential customer sees the number of the caller when his phone rings. If he recognizes the number, he picks up; if he doesn't, he might ignore the call or maybe let an answering machine get it.

For $48 a year New Jersey Bell will accept a list of up to six calling numbers that will be blocked from your phone altogether; the callers get a central-office recording telling them to buzz off. Depending on how many stockbrokers, bill collectors and ex-spouses you are trying to avoid, six may fall far short of your needs. But New Jersey Bell's services are just the opening wedge of call-blocking technology. If a $60 device can capture phone-number data from the phone line for display, another device could sit between a telephone and a personal computer, trapping and storing incoming phone numbers. There it could be compared against an unlimited list of *numeri non grati*. Perhaps, as Caller ID spreads to other Bell companies (Nynex plans to offer the service as well), some entrepreneur will market software that can identify the sleazier phone solicitors—penny stock touts, for example—and cut them off.

Businesses are already figuring ways to turn Caller ID into an offensive weapon, says a telephone consultant who is advising them. In New Jersey, commercial accounts can identify calling phone numbers for $102 a year. Obvious scheme: Advertise, say, a free book on municipal bonds with a phone number to call, then capture the callers' numbers and feed them to ravening cold-call brokers.

Don't forget that the strongest weapon in the arsenal of people making calls is phone numbers. Getting those numbers along with your name, address, zip code and any other personal information (the more personal the better) is big business. List brokers thrive by leasing computer tapes containing magazine circulation lists, product warranty registration lists and other information to direct marketers.

Technology makes this process a bigger problem. Nynex is selling, for $10,000, a compact disc containing 10 million white page listings for its New York and New England service area. The discs are updated monthly and include a little more information than the paper white pages: names, addresses, zip codes and, of course, phone numbers. Chief customers for Nynex' disc: bill collectors, banks and law enforcement agencies.

Once the marketer has a million numbers, what does he do with them? Feeds them into a power dialer, also known as a junk-call machine. About $38 million worth of the power dialing equipment was sold in 1988, according to William Reed at Link Resources, a New York market research firm. This notwithstanding about 30 state laws supposedly restricting them. (Massachusetts has a law requiring phone companies to make available to operators of power dialers a list of phone customers who have asked to be spared such solicitations. But the law does not require the junk call operators to get the list, much less to honor it. In Florida a 1987 law bans phone machines from calling people with pitches for "tangible" goods like aluminum siding. "Tangible," however, does not cover the activities of stockbrokers and insurance salesmen.

Boston-area-based Davox Corp. says one purchaser of its CAS-1000 system, which supports 64 phone lines and 32 customer service representatives, was able to dial 20,000 numbers and make 4,000 contacts in one day. Those dialers aren't cheap. A midlevel Davox system—one that supports 16 lines and 8 to 10 agents—is priced at $125,000.

As telemarketers spend more for offense, their audience will have to step up defensive outlays. One manager of a bed-and-breakfast in San Francisco uses a device called

Sometimes success requires a little reorganization.

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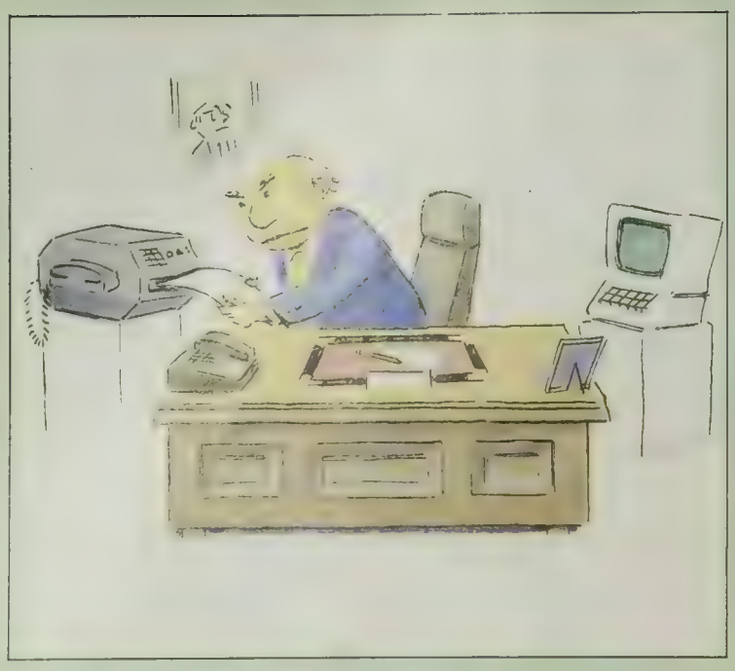


Comp/Comm

PriveCode to stop his phone from ringing. "I was tired of being offered free dancing lessons," he says. "With a phone in every room, every time they rang the house sounded like it was taking off to the sky."

PriveCode asks callers for their access number, which they punch in with a touch-tone phone. The inn's guests have a code that makes the phone rings come in bursts of four. The booking agent uses a code that rings three times. The manager's friends have yet another code that sets off two rings. The single-ring code is for "special occasions," he says. Dance lesson pitchmen can't make the phone ring at all.

PriveCode was invented by IMM Corp. in Philadelphia, which, alas, doesn't sell it anymore. It was a marketing failure, partly because of its high price (about $300 for a single extension) and partly because it doesn't also have a message-taking option for people who don't know the code. But experts say it would be easy to build a ring-blocking device into the current generation of $100 answering machines, which already use codes to read back messages to the owner calling in from another phone.

Another defensive technology has been around for a long while but is much more feasible with modern software-controlled PBXes, or switchboards. Keep two phone extensions. One rings when a stranger dials your company and asks to be connected to you. That extension is shunted to a secretary. The other extension is known to people you want to hear from. You pick up that extension yourself, saving the inconvenience of a screening by your secretary. Software-driven switchboards facilitate this dodge immensely. For one thing, they can easily change your private extension number if it leaks out to outsiders. For another, they can shunt the cold-callers to a low-cost dump such as a voice mailbox. If corporate executives of the future can win this little electronic battle, they can probably make do with fewer secretaries.

But marketing people, desperate for new leads, are fighting back: Offensive software is moving ahead. A Norcross, company, Digital Publications, is selling a program and 5,000-name database that allows publicists to mass-distribute faxed press releases automatically at night, at a cost of 10 cents each, much cheaper than the average 80 cents paid per mailed press release. Mr. Fax, a fax supply company in Irvine, Calif., has accumulated a large database of fax numbers by offering cameras and Sony Walkmans for lists of fax numbers. Such lists are one reason fax users are inundated with mail—and paying for the insult, since suppliers are on them.

Defense against junk fax assaults: Don't let out your fax numbers. Soon, however, fax marketers will have a powerful retaliatory weapon, inspired by the "demon dialer" of the movie *War Games*. Zoom Telephonics in Boston plans to release in March a $595 modem that can be programmed to randomly dial thousands of numbers, hunting for responses that betray the characteristic signals of a fax machine beginning to receive. The fax numbers are stored for later retrieval.

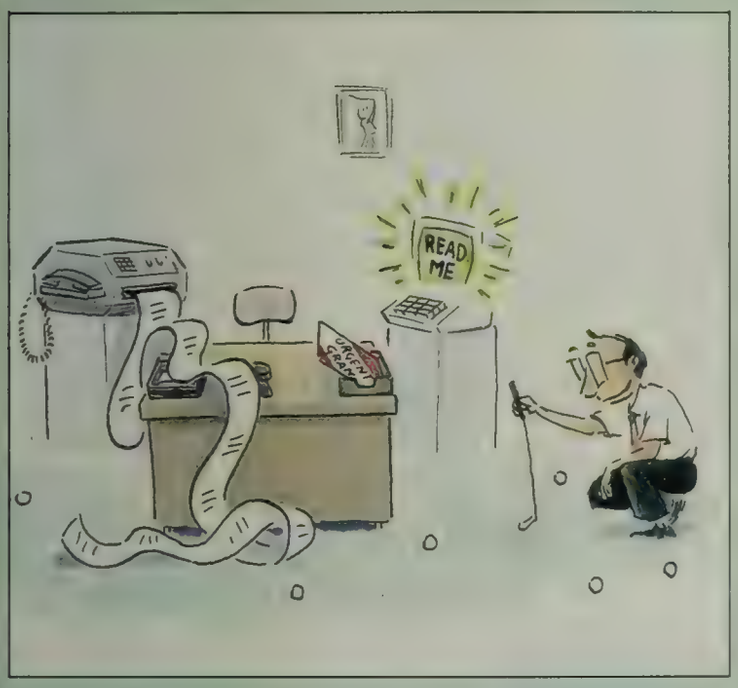
Now what do you do? So far only a few fax manufacturers have added a feature that demands an access code before permitting a transmission to begin. But such features may soon become standard on all machines rather than options.

Electronic mail—messages sent from computer to computer—presents a more complicated battlefield. It's more

powerful than letter mail and potentially more invasive. Why so? With a fax message, you don't know whether or not the intended recipient got the message or read it, but some electronic mail systems, for instance, permit the sender to attach a "receipt" to a message so he'll know when you've read it and can follow up with a phone call. Defense: Forward the message to yourself and then read it. The receipt won't be triggered.

E-mail still has a way to go before it replaces the post office—or snailmail, as its detractors call it. However, it is already formidable. The number of messages over public systems (such as CompuServe and MCI Mail) reached about 500 million in 1987. Coopers & Lybrand predicts that number will reach 2 billion in 1992. On private, corporate electronic mail systems, there were about 1 billion messages in 1988, and there could be over 10 billion by 1992.

When the first corporate electronic mail systems were installed in the 1970s, users noticed a disquieting phenomenon: unwanted messages. "Someone in a branch office hires a new salesman and sends a message to everyone in the company, including the chairman," says Walter Ulrich, a partner at Coopers & Lybrand in Houston. "That clutters everyone's mailbox. It is so simple to simply address the message to 'everyone' that there is abuse. Without electronic mail that branch manager would never think of making the same announcement, running off 10,000 Xerox copies and then mailing it out." As chairman of the privacy and security subcommittee of the Electronic Mail Association, Ulrich is monitoring ways to cope with this problem of overuse.



Help is on the way. Professor Thomas Malone at MIT's Sloan School of Management is leading a project called the Information Lens, a system of filters, defined by the user, that scans incoming mail and sorts it into "folders" according to user-defined criteria. Mail from the boss will be flagged as urgent if the user has so programmed the system. The Lens can also identify messages from electronic pests by the way the user handles them, and can route them into an electronic trash can or low-priority folder.

General broadcasts, like junk mail, can be regarded as useless by many recipients, who would prefer not to receive impersonal communications. The Lens, rather than posting a copy of a broadcast message in everyone's in-box, puts it into an electronic pool of other broadcast messages. Members of the system can tell the Lens to search the pool for items of interest, retrieve them, and save them in a personal file. In this system the receiver has more control over the communication channel than the sender.

"Imagine various kinds of pricing schemes," says Malone. "On a simple level a sender is charged for sending messages and charged more for sending a message to many people. You can imagine some more elaborate schemes: One would be a toll for getting information into your mailbox. You won't be willing to look at messages from random strangers unless they are willing to pay to get that information into your mailbox.

"That way I have a certain kind of filter that says it has to be worthwhile to the sender to get it to me. Such a system increases the incentive for the sender to target his communications more directly."

Professor Nicholas Negroponte, director of MIT's Media Lab, envisions a world of "reverse advertising." "I tell my computer to tell the world that I want to buy a windsurfer for under $800, and the windsurfer world responds with bids." Don't call us, we'll call you. Now we're talking. ■

Edited by Gary Slutsker

It's easy to explain how to build a successful high-tech company, a lot harder to do it.

To catch a particle

In 1941 David Pall, then a 27-year-old Canadian-born chemist, made his first filter. The Brown University Ph.D. had taken on an assignment with the Manhattan Project, the U.S. government's secret project to develop the atomic bomb. His mission: to design a means of separating uranium 235, the raw material for the fission reaction, from uranium 238, its heavier and less stable relative. Pall helped create such a filter by sintering powdered stainless steel, or heating it to just below its melting point, and forming a microscopically fine screen.

Forty-eight years later, at age 75, the soft-spoken, tweed-jacketed Pall has less hair, but he still heads a team that invents new filters in his Glen Cove, N.Y. laboratory. His latest: a family of blood filters that prevent illness in transfusion patients by removing leukocytes, or white blood cells, from plasma and red blood cells.

During the intervening years, Pall has made hundreds of filters to perform very specific tasks, ranging from nylon filters that prevent bacteria from contaminating pharmaceuticals to woven metal filters that keep impurities out of jet fuel.

Pall Corp.'s Kras[illegible] and Pall, holding a new blood filter
"Filtration is a [illegible] art for most technical people."

The company Pall founded in 1946, today known as Pall Corp. (estimated 1989 revenues, $480 million), has become the worldwide leader in fine filters, turning its inventor-founder into a multimillionaire. Pall's exceptional growth rate—18% a year in sales and 37% in earnings over the last 17 years—has come entirely from finding new places to sell filters.

From the beginning, Pall Corp. has grown by focusing on filters that perform critical tasks for customers. Opportunities for expansion keep popping up as a natural consequence of technological advancement.

For example, many early commercial jet aircraft used filters developed for the automotive industry. When American Airlines started flying its first Boeing 707s in 1958, it discovered that impurities were getting into and damaging the hydraulic system used to extend the landing gear. The gear could be lowered manually, but the job was risky and time-consuming. "Crowds used to clog New York's Idlewild Airport in the hope of witnessing a disaster," jokes Pall.

Pall came up with a sintered woven metal filter that did the job for American's 707 fleet, and later gave General Electric a filter for purifying the fuel line to its jet engines. Says Pall: "The art of filtration, which is a black art for most technical people regardless of the discipline they come from, was in an extremely poor state."

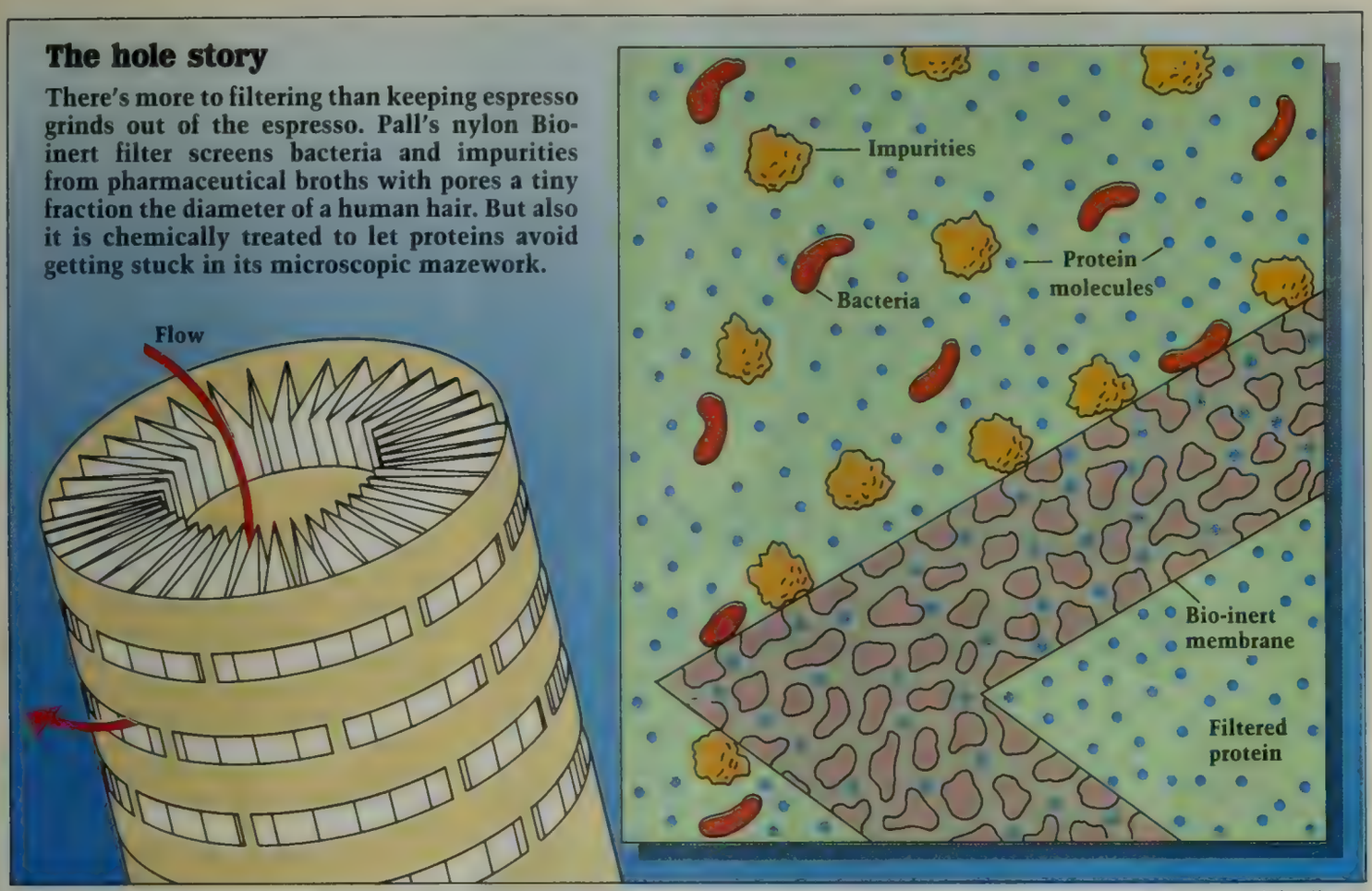
Today Pall Corp., with Pall still chairman, is the leading supplier of aerospace filters, and its products are on most major military aircraft, from Bell helicopters to the Air Force's proposed Advanced Tactical Fighter.

What was true of the aerospace industry is also true elsewhere. As the semiconductor industry etches ever-thinner lines on its chips, it requires greater purity in the materials used to create those lines and the water used to clean the chips. As the biotechnology industry makes new drugs on a mass-market scale, it needs filters designed to distinguish cells from cell debris. As pollutants imperil the planet, societies need to clean the air they breathe and, to heed the warning of *Dr. Strangelove*'s General Jack D. Ripper, to purify bodily fluids.

Pall Corp. stays away from commodity-like filters where price is the differentiating factor. "We wouldn't make a lube oil filter for an automobile, but these days we are making one for large diesel engines, because they have a need for an improvement," says Vice Chairman and Chief Executive Abraham Krasnoff, 68, a former certified public accountant

The hole story

There's more to filtering than keeping espresso grinds out of the espresso. Pall's nylon Bio-inert filter screens bacteria and impurities from pharmaceutical broths with pores a tiny fraction the diameter of a human hair. But also it is chemically treated to let proteins avoid getting stuck in its microscopic mazework.



Andrew Christie

who joined Pall in 1951 and helped build the company.

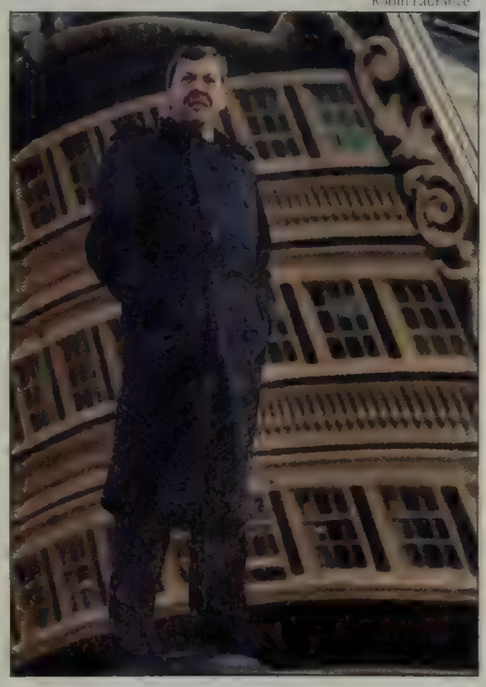
Pall isn't shy about getting out of a market once the technical improvements stop coming. Last year the company sold its compressed air dryers business in a leveraged buyout to employees because the technologically mature unit's low profitability was a drag on earnings.

Fine filters bear little resemblance to the sieve you use to strain spaghetti. For one thing, the pores in Pall's filters get as small as 0.04 microns, or about one four-thousandth the diameter of a human hair. For another, they have very large surface areas—the better to catch particles. An average piece of fine filter material the size of a postage stamp can have up to 200 square feet of surface area, thanks to its internal microscopic mazelike structure *(see illustration)*.

Consequently, Pall's engineers can treat those surfaces chemically to make them behave in different ways. For example, if you throw a handful of sand at a wall, it will either adhere or fall to the ground, depending on whether the wall is coated with, say, glue or high-gloss lacquer. Thus, for example, filter surfaces are designed to collect proteins or let them pass through the filter without reaction. "We build into all the exposed surfaces of the membrane chemical groups which are sitting there waiting for the arrival of a protein partner with which they can react," explains Peter Degen, research vice president.

Perhaps the most promising application of this surface chemistry is Pall's line of white blood cell filters. Why filter white cells? White cells fight infection, but when transfused into a patient they can turn on their new host, causing rejection of platelets and illness. By treating polyester fibers with gamma rays and fluids, Pall came up with a filter whose surfaces bind white blood cells while letting plasma or red cells pass through. The Red Cross says preliminary results show Pall's filter can reduce the 2 billion white cells in a unit of blood to just 200,000 white blood cells—not perfect, but better than 99.99%.

Robin Laurance



Maurice Hardy in Portsmouth, England ***Ready for 1992.***

"There's plenty of evidence today that red cells can be donated indefinitely if the white cells are removed," says Pall. "My first wife was kept alive for 15 months with periodic transfusions until she started rejecting the transfusions and she died. The cause of this was the white cells she was getting in the transfusions, though it wasn't known at the time."

With 1992 and the economic integration of Europe almost here, Pall sees a chance to expand further internationally, where it already gets 60% of sales. The youngster in the boardroom is 58-year-old President Maurice Hardy. A British subject who joined Pall in 1961 and built its international operations, Hardy has recently finished duplicating the firm's U.S. manufacturing capability in the U.K. The company is also looking at expansion in the Pacific Rim.

Figure out what you do best, then stick to it. That's the way to build a successful high-tech outfit. Sounds simple, doesn't it?—**G.S.**

Marketing

Edited by Jeffrey A. Trachtenberg

Basketball is the world's fastest-growing sport. Understandable, then, that the National Basketball Association is going overseas, with smart marketers following.

Playing the global game

NBA Commissioner David Stern
Point guard in the international drive.

Alan Dutow Archive

By Edward F. Cone

It's Friday night in Madrid, and the mostly male crowd at the tapas bar is yelling and applauding, watching sports on TVE, the state-owned national television network. But this is not soccer or the bullfights. It's the NBA Game of the Week causing all the commotion as the New York Knicks square off against the Boston Celtics.

Flush with his league's financial success at home, National Basketball Association Commissioner David Stern has begun running and gunning at international markets. Spain, for example, is one of more than 50 foreign countries to regularly broadcast National Basketball Association games. More, the league has begun an annual tournament against the cream of foreign competition. Ted Turner's Atlanta Hawks even journeyed to Russia this summer, playing a series of games against the powerful Soviet national team, and Stern has been talking to media authorities in Moscow about televising league games.

All of which is important news to some of this country's savviest sports marketers. Converse, Nike and Reebok, which make basketball shoes, are natural overseas advertisers, of course. So is Spalding, which produces licensed NBA apparel and balls. But others, from McDonald's and American Airlines to Lipton tea, have also begun using the popularity of basketball to further build their international businesses.

"No other sport can match b ball's popularity with the auc that we want to reach," says Dandurand, director of McDo sports marketing. "These are th tomers who eat at our stores. talking about people 18 to 35 willing to try new things." Be commercials, now aired in 4 tries, McDonald's has give over 10,000 sweatbands and p kids' basketball clinics from Taiwan. McDonald's U.S. sponsored a four-team tourne drid featuring the Yugoslavia al team, professional teams f and Spain, and the Celtics. T also a sweepstakes held in tion with American Airline laroid at McDonald's 25 re throughout Spain. Grand pr to Dallas on American Airlines for a genuine NBA game.

"We are greatly expanding our operations in Europe," says American Airlines spokesperson Mary O'Neill. "Given basketball's wide popularity with a broad range of fans, it's a great way to reach people."

Selling sports overseas is hardly a new idea, of course. Tennis and golf, which have overseas origins, have done well for years internationally, and both the National Football League and Major League Baseball sponsor games and telecasts around the world. But American football and baseball remain largely unknown on much of the planet; of U.S. sports, only basketball has a built-in audience for marketers to tap.

As many as 200 million men and women around the world now play basketball at some level, giving the sport more league-affiliated players than soccer, according to international basketball officials. The game was introduced internationally as an official sport at the 1936 Olympics; the games were attended by James Naismith, who invented basketball a century ago in Springfield, Mass. G.I.s helped spread the sport during the 1940s and 1950s, and its simple, low-cost nature did the rest.

Today dozens of publications are devoted to the game, from *Giganti del Basket* in Italy to *Basket 16* in Spain to Australia's *Basketballer* to *Magazine for Cagers* in Japan. National teams in many countries are every bit as good as the U.S. amateurs, as evidenced by

the Seoul Olympics, where the U.S.S.R won the gold medal after beating the Yugoslavians.

"The foreign fans are rabid," says Pat Riley, coach of the NBA champion Los Angeles Lakers. "They know the game, the players and the coaches." Photos of American stars, in fact, dominate the foreign basketball magazines: "Magic piega Isiah" trumpets the cover of Italy's *Giganti Del Basket*, complete with a glossy photograph of American superstars Earvin (Magic) Johnson and Isiah Thomas. Inside are ads promoting Converse, Nike, Reebok and Edge shaving gel—the last hawked by Johnson and former pro Slick Watts.

American basketball could get another big boost this spring, when the International Olympic Committee is expected to allow professionals to play in the Olympics. "There will be a unified world championship," says Boris Stanković, secretary-general of the Munich-based FIBA, international basketball's governing body, "and it will include American professional players." That will mean more exposure and more opportunities to market behind the U.S. game abroad.

For the 1988-89 season, overseas broadcasts of NBA games are projected to earn over $4 million, a fraction of the league's total domestic revenues of $400 million, but a figure that is growing 30% a year. That would mean NBA foreign broadcasting revenues of more than $25 million by 1995. Sales of all U.S. programming abroad could approach half of those at home in 1992. Sports programming accounts for some 15% of all European broadcasting, and the number of new commercial stations has multiplied rapidly.

"This is the best time in years to expand U.S. sports into international markets," says Peter Smith, senior vice president of Trans World International, the television arm of Cleveland-based International Management Group, which distributes sports programming worldwide from 26 international offices.

For equipment manufacturers, the marketing approach is surprisingly similar, no matter what the country. Endorsements from established stars and coaches move the merchandise. Converse, which sells NBA-licensed footwear and its own popular basketball shoes priced from $50 to over $100 a pair, sold well over $50 million worth this year outside the U.S. That's only 25% of Converse's total sales, but triple its international number for 1986. Reebok, endorsed by such well-known U.S. players and coaches as Danny Manning, 1988's College Player of the Year and now a pro with the Los Angeles Clippers, and the Lakers' Pat Riley, sponsors well-attended three-on-three tournaments in countries from Greece to Israel to Japan. Nike, whose distributors sponsor clinics abroad, is hawked by the NBA's best player, Michael Jordan; it sold more than $40 million of basketball shoes overseas this year, up significantly from last year, and largely in Western Europe.

A Converse sneaker ad in Japanese
The shoemaker's total foreign sales tripled in two years.

The Celtics playing in Madrid
"The foreign fans are rabid."

Manny Millan/Sports Illustrated

But no equipment company has benefited more from the NBA's global slam dunk than Spalding. It sold more than $10 million worth of its NBA-licensed balls and clothing internationally in 1988, double what it sold overseas the year before. Part of Spalding's success lies in its willingness to adapt to local market preferences. The Japanese, for example, prefer a slightly larger basketball—no one seems to know why—while multicolored, but standard, 9.3-inch-diameter balls do better in Europe.

"It's partly a fashion business, aside from the balls themselves," says Scott Creelman, Spalding's international vice president. Unlike many other sports, basketball is widely played by women and children, and the gear, from shorts and shoes to tank tops and warmup jackets, is adaptable to everyday wear. The NBA's licensing cut last year was over $1 million on more than $15 million in sales of clothes and paraphernalia. Stern has made sure that the NBA logo, a stylized, red-white-and-blue picture of a basketball player, is omnipresent.

The catalog of sponsors and variety of promotions is as far-ranging as the global sweep of the game's popularity. In hoop-crazy Italy, Unilever's Lipton is sponsoring a contest that is advertised on some 7 million tea bag boxes with various U.S. team and NBA logos. The winner gets a trip on American Airlines to see the 1989 NBA championship series.

One day relatively soon the world will see a global professional basketball championship. The Olympics will provide something of the sort by 1992. Along the way, David Stern and his conquistadores in short pants will be making a lot of people a lot of money. ■

It wouldn't be seemly for your doctor to solicit business, but there's nothing wrong with his keeping in touch with you through a personalized newsletter.

Paper medicine

By Ellen Paris

MEDICINE, AS ANY DOCTOR will tell you, has grown increasingly competitive, especially in highly livable cities such as Los Angeles and Boston, where physicians prefer to settle and practice. More than 560,000 physicians practice in the U.S. today, up from 437,000 a decade ago; that's a gain of nearly 30%, well in excess of population growth. The numbers are growing: Almost 16,000 graduated from medical school last year.

When supply grows faster than demand in any field, medicine included, you have competition; and when you have competition, you have marketing. That's why you may be getting in the mail these days a regular newsletter from your friendly doctor. Hospitals and clinics have successfully used them for years, but now individual doctors do too. When Dr. David Spoelhof of Duluth, Minn. opened a branch office in nearby Proctor he figured a newsletter was a good way to spread the word. In a recent issue he discussed Lyme disease (a tick-spread illness). Soon after publication, Spoelhof's work load increased as people asked to be tested for the disease.

Dr. Jean Pitts, an Oklahoma City cardiologist, started sending out her *Heartline*, a four-page quarterly newsletter, in 1986 to 5,000 patients. "People who aren't patients but who have seen the newsletter call and ask to be put on the mailing list," she says.

"My newsletter lets me create an expert image," says Dr. Ira Bloomfield, a 38-year-old internist who for the past ten years has run a walk-in outpatient clinic in Miami. Bloomfield mails a quarterly four-page newsletter to current patients and to select zip codes and inserts it in the local pennysaver.

In a profession that is sensitive about advertising, newsletters are acceptable, whereas billboards or newspaper ads might not be. No one knows how many doctors are now publishing newsletters, but a full 32% of physicians of the 500 surveyed in a recent nationwide study by National Research Corp. of Lincoln, Neb. said they were very interested in using newsletters.

How can an already busy doctor take time to publish a newsletter? With word processors and desktop publishing, newsletters are easier to turn out. Dr. Kenneth Fogelberg, a Thousand Oaks, Calif. ob-gyn, uses a personal computer for his publications. For him they are an extension of the increasingly short office visit. "A 15-minute office visit," he says, "just isn't enough."

Dr. Pitts says she spends around 30 hours writing and producing each of her newsletters. Doctors who want to spend less time can use a generic newsletter, like that available from the Doctor's Press of Lancaster, Pa. These are written and printed in Lancaster but leave room for the doctor's name and address and two pages that can be personalized. Cost: between $446 and $552 for 2,000 copies.

Do the newsletters produce results? Says Dr. Brent Laing, a 34-year-old ob-gyn in Elizabethton, Tenn.: "I would give up my listing in the Yellow Pages before I'd stop sending out my newsletter." ■

Mark Hill

Newsletters from across the country
Increasing competition breeds better marketing.

Nancy Rica Schiff

Dr. Fogelberg and wife Sheila
Making up for shorter office visits.

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Personal Affairs

Edited by William G. Flanagan

Tall ships being built in the 1980s? Man still cannot ignore the magic of the wind, nor fail to find new ways to harness it.

Sir Francis Drake never had it so good

Aft on the Wind Spirit, in the British Virgin Islands
A cross between a luxury sailing yacht and a cruise liner.

When William F. Buckley Jr. next sails the Atlantic this spring, it will not be aboard his beloved *Patito*. Instead, he will be a mere passenger aboard a remarkable vessel—a high-tech wonder called *Wind Star*, which is man's most sophisticated effort yet to harness what Buckley might call "God's breath."

Also this spring, when James H. Michener next visits the Marquesas Islands in the South Pacific, it will be aboard the *Wind Song*, an identical twin of *Wind Star*.

These ships, plus the triplet *Wind Spirit*, are the largest, most up-to-date, four-masted sailing ships afloat. Their construction represents as challenging a feat to sailing shipbuilders in this era as did the men-of-war of the 16th and 17th centuries, or the clipper ships of the mid-1800s.

Unlike many sailing ships of yore, the Windstar fleet was designed to fire no cannon, to force no treasure-laden galleon to heave to, to race around no Horn. Plying Caribbean, Polynesian and, in summer, Mediterranean waters, these new ships marry secrets of sailing design hard won over the centuries with computer technology that did not even exist a decade ago, simply and solely for the extraordinary fun of it.

Not that profit has been forgotten. In addition to the fuel savings, Windstar vessels require only the barest of maritime crews—only 20 per ship. Sails are furled, unfurled and trimmed mechanically, by push button.

By contrast, the next-largest conventional sailing cruise vessel, the *S/V Fantome* (operated by Windjammer Barefoot Cruises), which is only 282 feet long, requires a maritime crew of about 30.

Despite their size—440 feet overall—these ships, built in Le Havre by Société Nouvelle des Ateliers et Chantiers du Havre, are no floating hotels from whose decks the sea below looks like a blue tarmac. They heel when stiff breezes fill their computer-guided, self-furling sails, which have 21,500 square feet of surface area. They can charge through the sea at speeds up to 13.5 knots, causing green water to splash the porthole windows of cabins in the lower decks.

Yet neither Buckley nor Michener need fear spilling their Cokes or having their word processors unplug. Ballast tanks limit the heel to a maximum of six degrees. Even four degrees is rarely exceeded. And stabilizers further smooth the ride.

A cross between luxury sailing yachts and cruise liners, the Windstar fleet is nonetheless democratic. It has

Wind Star plying the Caribbean
High-tech sailing, for fun and profit.

only one class, with all 74 outside cabins the same size (185 square feet) and commanding the same price (typical rate is $300 per person, per day; by contrast, Windjammer cruises cost about half that).

Each cabin is outfitted with color television and VCR, satellite-linked telephone, refrigerator and minibar, queen-size or twin beds, double closets, custom-made wood furnishings and space-age heads featuring cocoon-like circular showers.

Each ship has two decks of cabins and two decks of public space and a flying bridge, from which to marvel at the six triangular sails going about their silent, unmanned work. Were it not for a complete lack of noise or vibration it would be easy to forget you're on a sailing vessel at all. (If you are a sailor and want to know more, the captain and officers will gladly oblige you.)

Each ship has one formal dining room (no jacket is required) plus another dining room for breakfast and lunch that becomes a disco at night. Other amenities: lounge bar and dance floor, piano bar, small swimming pool, casino, gymnasium, sauna, boutique, beauty salon and laundry. There is also a masseuse aboard, as well as a ship's doctor.

Life on a Windstar cruise is unstructured; there are no set seating arrangements for dinner. There are no shows (though there is a band), no lectures, dancing lessons, horse races nor any of the goofy games found on many cruise ships. "The Windstar vacation provides sophisticated travelers with unregimented leisure opportunities and sports activities," says Windstar President Jean-Claude Potier.

What do passengers do all day? Besides sightseeing and shopping ashore each day, many of them get wet. Each ship carries a complete scuba diving facility (certified divers only), and has small sailboats, windsurfers and snorkeling equipment. In addition to the regular tenders, each ship also offers a pair of high-powered, ten-passenger inflatable boats for ferrying passengers to and from beaches (most cruises include several stops at secluded beaches) and also for waterskiing.

The cruises are intended to attract active travelers of every age, from young couples in their twenties to hearty septuagenarians, who mix easily round the piano or snorkeling over reefs. The bar closes late under the stars, and the soft trade winds are quickly missed when the ship furls sail and switches over to diesel power to navigate back into home port.

Word of the ships, which only came into service in late 1986, mid-1987 and mid-1988, has been fairly slow to spread in the travel community. Discounts are available, especially for early bookers. Check with your travel agent. But don't expect those discounts to last forever. The fleet has been acquired by Carnival Cruise lines, which knows a thing or two about marketing.

Carrying a maximum of 148 passengers per weekly cruise, each ship costs about $33 million. The crews are young and polyglot: Norwegian, English, French (including the chef, of course), American, and others, but English is the dominant language.

For the French shipbuilders, these three ships represent a decade-long struggle to make large sailing ships viable again, an effort begun in the dark days of the oil crisis.

As magnificent a fleet of ships as these are, they are soon to be dwarfed

by a 610-foot five-master, which will also have automatic sails—and will carry 416 passengers. Costing $100 million, the still-unnamed vessel is due for launch in late 1989, from the same French yards where the Windstar fleet was built. Its maritime crew will number but 26. It will be operated by Club Med.

Here are current itineraries and costs of Windstar cruises:

Wind Spirit: Caribbean departures every Saturday from St. Thomas, calling at St. John, St. Martin, Rendezvous Island, St. Bart's, Virgin Gorda and Jost Van Dyke (Jan. 7 though Apr. 1; Oct. 21 through Dec. 30, 1989).

Wind Star: Caribbean departures every Sunday from Antigua, calling at St. Bart's, Rendezvous Island, St. Martin, Barbuda, St. Kitts and Iles des Saintes (Jan. 8 through May 28; Oct. 15 through Dec. 30, 1989). Cost for these weekly cruises: $1,895 to $2,495 per person, depending upon season. Note: These prices include gratuities.

In summer months, both these vessels sail the Mediterranean and Adriatic. A typical weekly cruise sails from Monte Carlo, calling at St. Tropez, Calvi, Portoferraio, Portovenere, Isola di Giglio and Portofino. Cost: $2,195 to $2,495 per person.

Wind Song: French Polynesia sailings every Friday from Papeete, calling at Huahine, Tahaa, Raiatea, Bora Bora and Moorea. During June 1989, there will be two 14-night cruises through the Marquesas Islands. Cost of weekly trips: $1,895 to $2,495 per person, depending upon season. All airfare is extra.

For more information, contact Windstar Sail Cruises, Ltd., 7205 N.W. 19th St., Suite #410, Miami, Fla., (800-258-SAIL).—**W.G.F.**

Want to globe-trot with William Buckley?

One stop is in Tahiti, where for a day passengers will board the *Wind Song* for a cruise to Moorea. But that's only one stop on a Concorde-powered, 24-day trip around the world organized by Lorraine Travel Bureau, Miami, and hosted by columnist and television commentator William F. Buckley Jr. The tour starts in New York and includes stopovers in Acapulco, Oakland, Calif., Hawaii, Tahiti, New Zealand, Australia, Sri Lanka, Kenya, South Africa and London. Several supersonic speed records are expected to be set on the journey, which will take a total of only 36 hours of flight time. Hotel accommodations (first class, of course) and side trips are included, all for just $39,000 per person. How can Buckley take that much time off? He won't; several of his *Firing Line* television programs will be produced en route. Dates: Apr. 1 through 24. Contact Lorraine Travel Bureau, Inc., 1001 N.W. 42nd Ave., Miami, Fla. 33126.—**W.G.F.**

Social Security: the bottom line

Your Social Security tab goes up another notch this year, to a maximum of $3,604 for the salaried, $6,249 for the self-employed, who have no employers to match their payments.

What will you get back? Here are some things to keep in mind.

- As salaries rise, so do benefit checks. The maximum benefit for someone retiring at age 65 this year is $899 a month. If the retiree has a nonworking spouse who is also over 65, the combined benefit jumps by half, to $1,348. You must work and pay Social Security taxes for at least ten years to be eligible for benefits.
- The earliest you can retire is at 62, but at a penalty. You'll get only 80% of what a 65-year-old collects. Wait until age 70 to retire, and you'll get more, however. A 70-year-old, for example, will now receive $1,063 a month, 30% more than if he had retired at age 65. And once you hit 70, the government sends checks whether you're retired or not.
- Yesterday's and today's retirees collect a lot more from the system than they contributed. Example: A person who retired at 65 last year, after 45 years of working and paying the maximum rate all his working days, would have paid into the system the equivalent of $38,000 in taxes (assuming 3% annual imputed interest). Even if his benefit stayed flat at $838 a month, he would recoup that money within four years. With cost-of-living increases, he will get it back even sooner.
- Baby boomers will not have it so good. For each retiree today, there are more than three workers paying into the system. In the 21st century, that will drop to fewer than two workers per retiree. To compensate, the normal retirement age is going up, beginning in 2003. For anyone born in 1960 or after, 67 is the earliest age at which they can receive full benefits. Cost-of-living increases and some other benefits will probably be trimmed, while taxes will continue to rise.

Peter Ferrara, senior fellow at the Cato Institute and author of several books on Social Security, has formulated a model to forecast benefits for a baby boomer who entered the work force at 22 in 1980 and pays the maximum Social Security tax throughout his working life. Using constant 1980 dollars, Ferrara reckons this worker will pay the equivalent of $475,000 in Social Security taxes and imputed interest by the time he retires in 2023. With a benefit of $1,250 a month, it will take him 32 years to recoup the value of what he paid in.

Says Ferrara: "For people entering the work force today, even if they live their normal life expectancy—20 years after retirement—they will not get back the full economic value of what they paid into the system."

The government makes mistakes; you should periodically check your records. Simply fill out a request form available from your nearest Social Security office. You will receive a comprehensive report showing the amount of covered wages you have earned since your first paycheck and other useful information. The service is free. For more information, call 800-234-5772. —**Edward Giltenan**

Phil Huling

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HONDA

The Accord SEi

Do you need charisma to succeed in business? The hucksters say yes, but the fact is, charismatic leaders can create plenty of problems for their companies.

The charisma merchants

By Dyan Machan

CHARISMA—that intense magnetic charm that reaches people on an emotional, nonrational level, inspiring them to efforts and undertakings beyond the norms of ordinary life. Can charisma be "learned"? Or is it something you either have or don't have?

To judge from the explosion of consultants claiming the power to teach charisma to executives, the answer to that question is: It can be acquired. Since 1978 the so-called personal image consulting business has grown from 37 firms to nearly 300, taking in more than $130 million yearly in fees, according to New York City-based Image Industry Publications. At anywhere from $50 to $350 an hour, consultants offer everything from hypnosis and breathing instruction to television acting lessons, to give clients more sizzle, radiance and confidence.

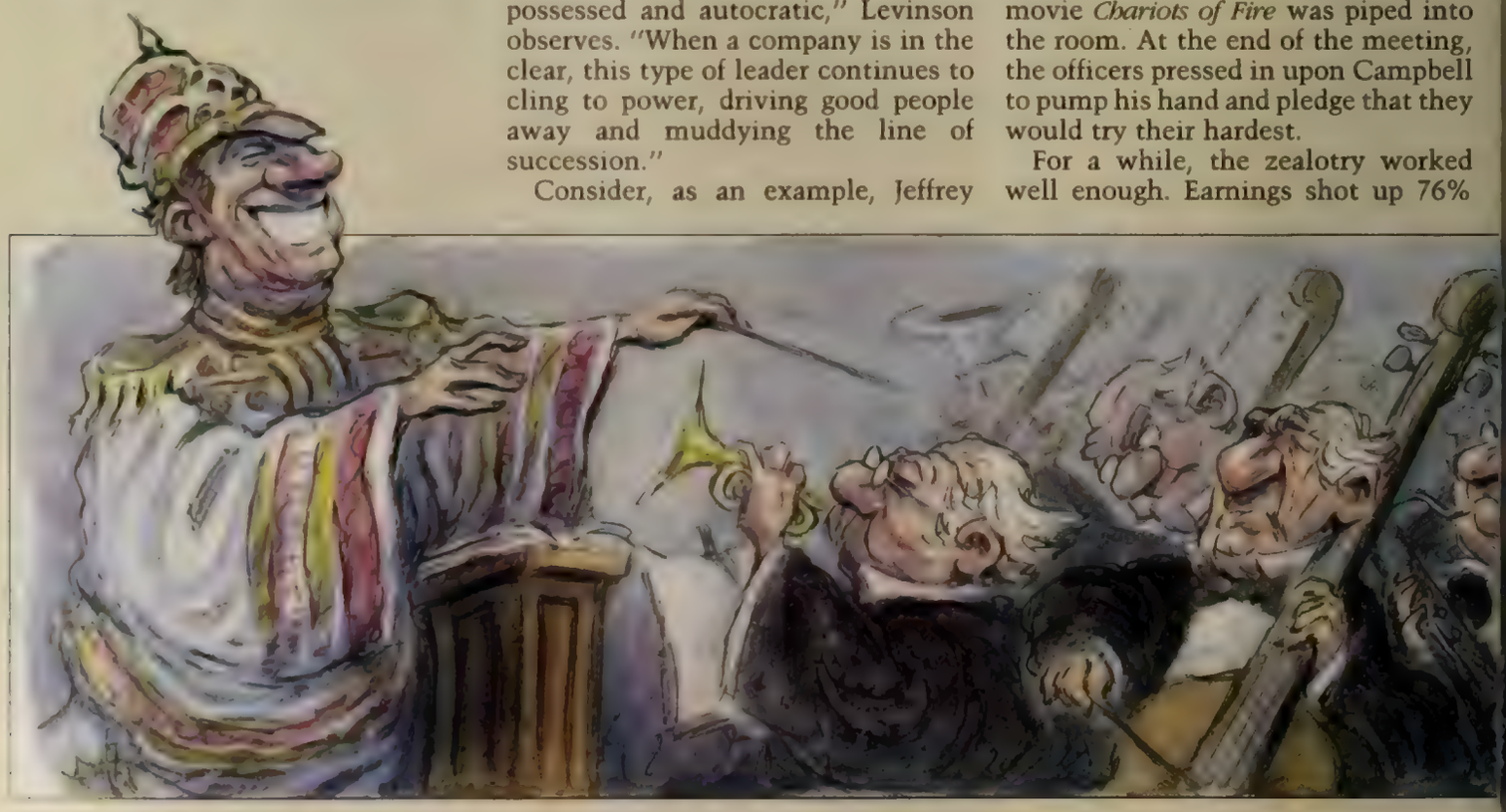
Is all this just a useless exercise in vanity? Probably.

Harry Levinson, of the Levinson Institute, a respected management consulting firm, has studied the impact of charismatic leadership on corporations. His conclusion: A dramatic leader may be ideal to pull a company through in a crisis, but after the company recovers, the problems begin. "The charismatic leader is often self-possessed and autocratic," Levinson observes. "When a company is in the clear, this type of leader continues to cling to power, driving good people away and muddying the line of succession."

Consider, as an example, Jeffrey Campbell, chairman of Burger King Corp. from 1983 to 1987. Campbell took over during a period of great stress for the fast-food chain. According to a new book on business leadership, *The Transformational Leader*, by Mary Anne Devanna, in an effort to reverse the company's declining market share and eroding margins, Campbell called his top officers together shortly after taking over. He then lectured them in near-religious terms about turning the company around.

Campbell asked everyone in the room to think silently about whether they were personally up to the turnaround challenge. As they pondered his question, theme music from the movie *Chariots of Fire* was piped into the room. At the end of the meeting, the officers pressed in upon Campbell to pump his hand and pledge that they would try their hardest.

For a while, the zealotry worked well enough. Earnings shot up 76%



that year, and Campbell was lionized as a corporate hero. But for all his ability to energize a crowd, Campbell lacked day-to-day management skills, and sales at the average Burger King store grew by only 1% a year, while McDonald's stores' were in double digits.

Why is the leader who thrives in crisis less effective under ordinary conditions? He or she often feels uncomfortable with aggressive subordinates who seek their own recognition. "They subconsciously don't want their successor to succeed," contends Levinson. Consider Occidental Petroleum's larger-than-life leader, Armand Hammer, 90. In Hammer's 31 years of rule at Oxy, six executives have been anointed as his successor, and in each case they have fallen out of favor. The current heir apparent, President Ray Irani, is a survivor, a quiet, private man who takes care not to move into Hammer's spotlight.

Or consider the case of Revlon Chairman Charles Revson, an entrepreneur with almost a sixth sense for what women would anoint themselves with. As he grew old, the tough-talking and autocratic Revson tapped as his successor Michel Bergerac, a charming French-born business scholar who, as head of ITT Europe, had no experience in the cosmetics business. Bergerac greatly expanded Revlon's health care operations until they eventually contributed more to sales and profits than cosmetics did. The mix of lipstick and anticancer drugs worked for a while, but the cosmetics business suffered an earnings slide through the early 1980s that led to a bitter takeover in 1985.

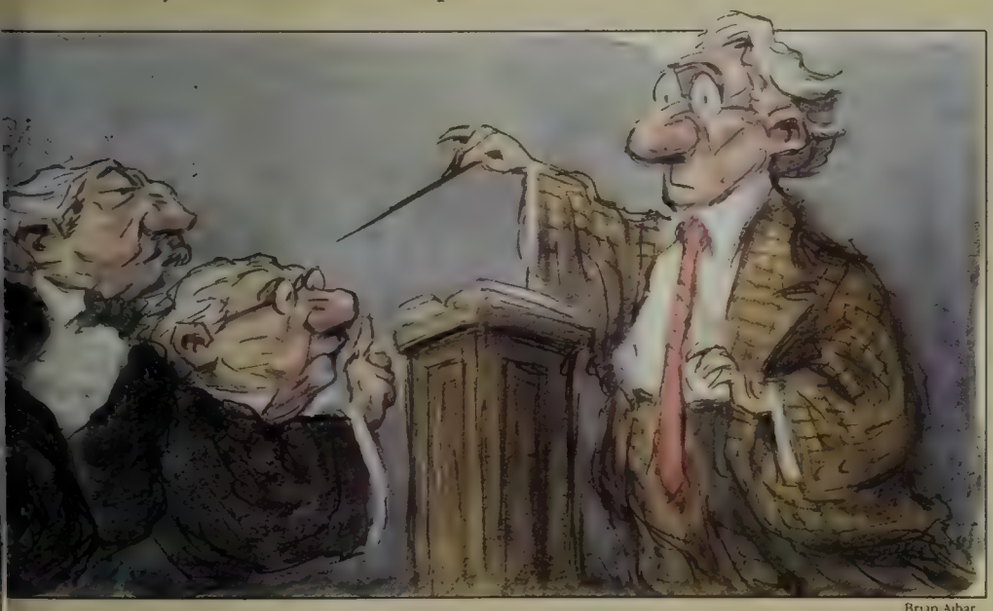
Frequently it takes two generations of stewardship before an organization can right itself from the impact of a charismatic leader. Ian MacGregor is the visionary chief executive who personally built Amax into one of the world's great natural resources combines. In 1977 MacGregor tapped as successor his smooth-talking protégé, Pierre Gousseland, who proceeded to rack up five straight years of red ink that eventually exceeded $1.6 billion in cumulative losses.

Gousseland retired under pressure in 1986. In so doing he made way for Amax' board to choose Allen Born, an undramatic but effective manager. Since taking over, Born has shed many of Gousseland's moneylosing investments, and has reversed the firm's declining fortunes.

Based on her research for *The Transformational Leader,* Mary Anne Devanna comments, "There's far too much emphasis on charisma today. The person who can command attention and fire people up is not the only one who can do the job. Leaders can quietly inspire through other means, such as technical ability, insight and honesty."

Take, for example, Roy Vagelos, chairman and chief executive officer of Merck & Co., an executive with about as charismatic an appeal as a wedge of Muenster cheese. With his monotonous speaking style, Vagelos displays no obvious charisma, but he inspires respect and emulation through his background in research and his credentials as a scientist and medical doctor. It is a résumé that gives his decisions at Merck credibility, and his willingness to share the limelight attracts good people.

Okay, throw away those books and cassettes on inspirational leadership. Send those consultants packing. Know your job, set a good example for the people under you and put results over politics. That's all the charisma you'll really need to succeed. ■



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Faces
Behind the Figures

Edited by Robert T. Grieves

Perestroika payoff

Whatever its fate in the Soviet Union, perestroika is proving to be a boon for American consultants who specialize in Soviet affairs. Latest example: Arthur A. Hartman, U.S. ambassador to Moscow from 1981 to 1987. Last month he joined APCO Associates, an affiliate of Arnold & Porter, the prestigious Washington, D.C. law firm, as a consultant on Soviet and European business opportunities. "Some of my corporate clients wanted more services from me," says Hartman, who has been consulting from his Washington home since he left the government in 1987. "I realized I needed a fax machine and some help."

Hartman should have plenty to do. APCO recently signed an agreement to help establish Soviet-Western business joint ventures with Infex, a Soviet cooperative of lawyers, consultants and accountants affiliated with the Soviet Ministry of Foreign Economic Relations.

Can U.S. firms realistically expect to make money in Soviet joint ventures? "You can get at part of the Soviet domestic market," says Hartman, "but there will be a lot of heartbreaks along the way if you think there are quick profits to be made."

Ventures in energy or the food sector have the best chances of success, he says, since those are high-priority areas of development for the Soviets. But repatriating hard currency still remains something of a problem, unless U.S. companies can export products made in the Soviet Union.

Hartman, 62, graduated from Harvard in 1947 with a bachelor's degree in economics and government and worked as an economist with the Marshall Plan before joining the foreign service. He later served as assistant secretary of state for Europe under Henry Kissinger, and was the American ambassador to France from 1977 to 1981.

Will perestroika work? "It's difficult to tell," says Hartman. "Much of what the Soviets are doing to modernize their society will ultimately be politically destabilizing."—**R.T.G.**

Arthur A. Hartman, former U.S. ambassador to Moscow
A lot of heartbreaks for those who want quick profits.

Burger woes

For years it seemed that all Rocky Mount, N.C.-based Hardee's Food Systems, Inc. had to do to assure its future was to knock off Wendy's and thereby become the third-biggest fast-food hamburger chain in America. Now, with 3,053 outlets and an estimated $3.3 billion in sales, Hardee's has done just that. Yet its future looks no more secure than it ever did. "It's just as much of a liability to be number three as it is to be number five," President William E. Prather Jr. now realizes. "We can't stay number three, or we'll be gobbled up."

Prather and Laughery of Hardee's
No salad bars here.

Hardee's is up against the hard facts of the burger business. Looming before them is McDonald's, the number one burger chain in the world. And across the street from virtually every McDonald's is a Burger King—a troubled competitor, to be sure, but a formidable one nonetheless. And wherever those two aren't, there's a good chance you'll find a Wendy's, or any of a dozen other fast-food outlets ranging from chicken parts to roast beef and pizza slices.

So where does Hardee's turn for growth when every niche seems filled? To fast food that's really that—fast. No sit-down meals or salad bars here, says Prather. "We've found that more than 50% of our customers use our drive-through windows, and another 25% who walk in the restaurants order food to carry out."

Prather, 41, is a veteran of the burger wars. For 14 years he worked his way up through Burger King, managing ever-larger franchise regions, until he was named executive vice president of worldwide operations in 1985. In March 1986, Jack A. Laughery, Hardee's chairman and chief executive officer, persuaded Prather to leave his successful career at Burger King and join his fast-food chain as president and chief operating officer.

But the toughest part still lies ahead. For Hardee's to move up to number two, Prather must seek out niches that, in all likelihood, its larger rivals have already considered and discarded. Good luck, Bill.—**R.T.G.**

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Faces
Behind the Figures

Plastics?

Nineteen eighty-eight was our best year for plastics," says Phillips Petroleum Chairman C.J. (Pete) Silas. "For the first time, chemicals and plastics outperformed our oil and gas operations." Plastics? That's right, according to Silas. Bartlesville, Okla.-based Phillips is one of the largest producers of natural gas liquids in the U.S., and a major producer of chemicals. "We're very strong in ethylene, propylene, polyethylene and polypropylene," adds Silas. "We make plastics out of natural gas liquids."

Rising plastics prices—42% for polyethylene, for example—have become a major factor in Phillips' turnaround. In 1985 Phillips began to buy up its outstanding common shares in the face of back-to-back takeover attempts by T. Boone Pickens and Carl Icahn—and took on $4.8 billion in new debt, for a total of $8.9 billion. As a result, the company had to trim back its work force by 2,600, close some operations and consolidate others. Now its debt is down to $4.9 billion, and its profitability has grown from a slim $35 million in 1987 to more than $500 million in the first nine months of 1988.

Silas, 56, graduated from Georgia Tech in 1953 with a chemical engineering degree and has worked for Phillips ever since. He became chairman and chief executive officer in May 1985.

Will 1989 be another big year for plastics at Phillips? Probably not as big, notes Silas. "Oil prices are now up $3 from last autumn, to $15.50 a barrel," he says. "They may stabilize at $15 or $16, but that will still make feed stocks for plastics more expensive." By then higher prices should again make oil and gas Phillips' dominant businesses. "We're looking forward to that," he says.—**R.T.G.**

Phillips Petroleum's Silas
Very strong in polyethylene.

Eli Reichman

The road to Infiniti

The Infiniti Q45 is a world-class car," says William Bruce. Or at least Bruce, a Nissan vice president and general manager of the company's Infiniti division, hopes it is. The V-8-powered Q45 sedan is the centerpiece of Nissan's big gamble in luxury cars. When Infiniti showrooms open in 65 locations around the U.S. this autumn, Bruce, 46, will find out whether there really is a market here for $35,000-to-$40,000 Japanese luxury cars, and if Infiniti can successfully compete against Mercedes, BMW, Jaguar and other luxury imports.

Infiniti, like Honda's Acura and Toyota's forthcoming Lexus, is being marketed under its own nameplate. That means each new Infiniti dealer must shell out between $2 million and $5 million for a franchise, including the costs of showrooms and repair facilities. Nissan itself has already spent an estimated $2.5 billion to develop Infiniti, and plans to spend another $50 million to $60 million to promote it in the U.S.

Massive expenditures alone, of course, don't guarantee a smooth launch for Infiniti. The U.S. luxury market is already overcrowded, and a slowing economy or a weak dollar could render high-priced imports unaffordable. Moreover, winning customers away from German and American luxury cars and cheaper Japanese models—Infiniti's target market—will not be easy.

Bruce remains undaunted. "The trends among American consumers point to a desire for more performance in a luxury car," he says. "That's what we're offering."—**Steve Kichen**

Alan D. Levenson

William Bruce, general manager of Nissan's Infiniti division
A $2.5 billion gamble in the U.S. luxury car market.

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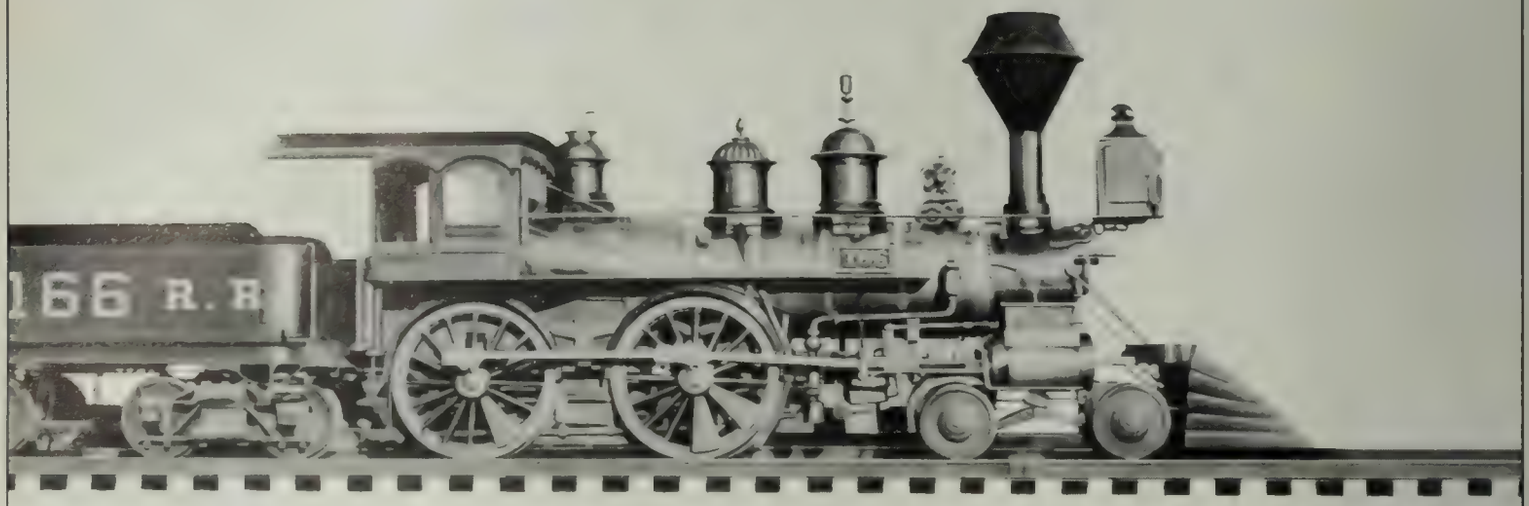

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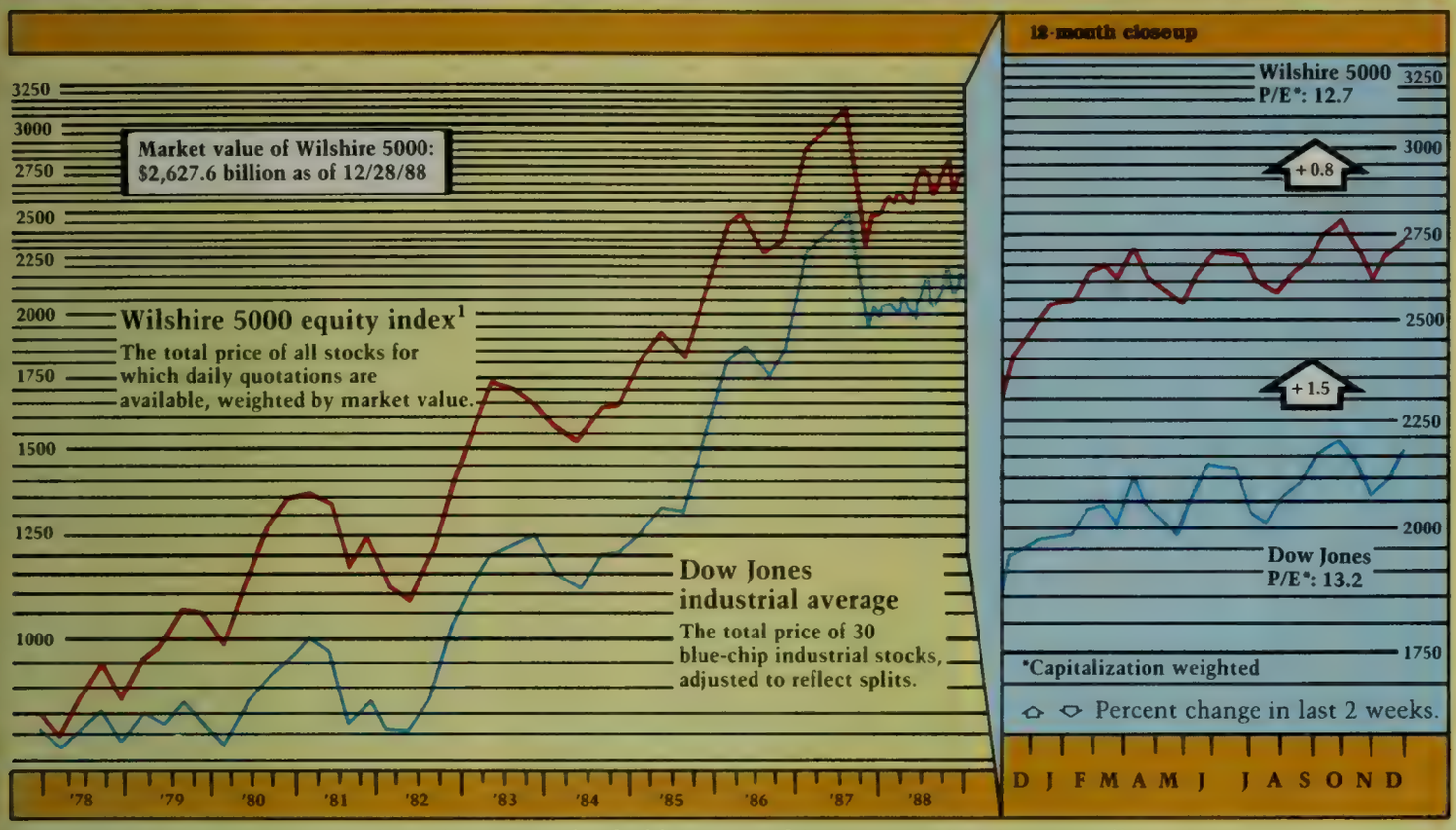
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Is it cheap yet? Let's sit back and review the bidding. Investors are now paying $13.20 for every dollar of net profit earned on average by the 30 stocks that make up the Dow Jones industrial average. On that arithmetic, stocks are much better buys than they were in August 1987, when the Dow P/E hit 22.2, but not so cheap as they were in August 1982, when the Dow P/E was at 10. They are now paying $12.70 for an average $1 of the Wilshire 6,000's profit. In August 1987 the Wilshire P/E was at 23.4, and in August 1982 it was at 7.1.

Could we see a repeat of 1982's multiples? There's little reason to think so. Both the Dow and the Wilshire numbers, remember, are "capitalization-weighted," with big companies exerting much greater influence on them than smaller-capitalization shares. At current earning levels, the Dow would have to drop 500 points to get down to a P/E of 10—unlikely, unless investors suddenly and seriously sell off IBM, Exxon and other important stocks.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.4	1.2	2.5	1.2	2.6	1.4
in last 52 weeks	12.7	12.3	11.1	12.5	17.4	14.3

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	1.4	2.1	4.6	0.0	3.1	1.2	–0.5	5.0	3.0	1.4	1.4	0.9
in last 52 weeks	14.7	54.8	73.2	24.2	25.1	31.5	20.4	70.1	59.8	24.0	19.2	45.9

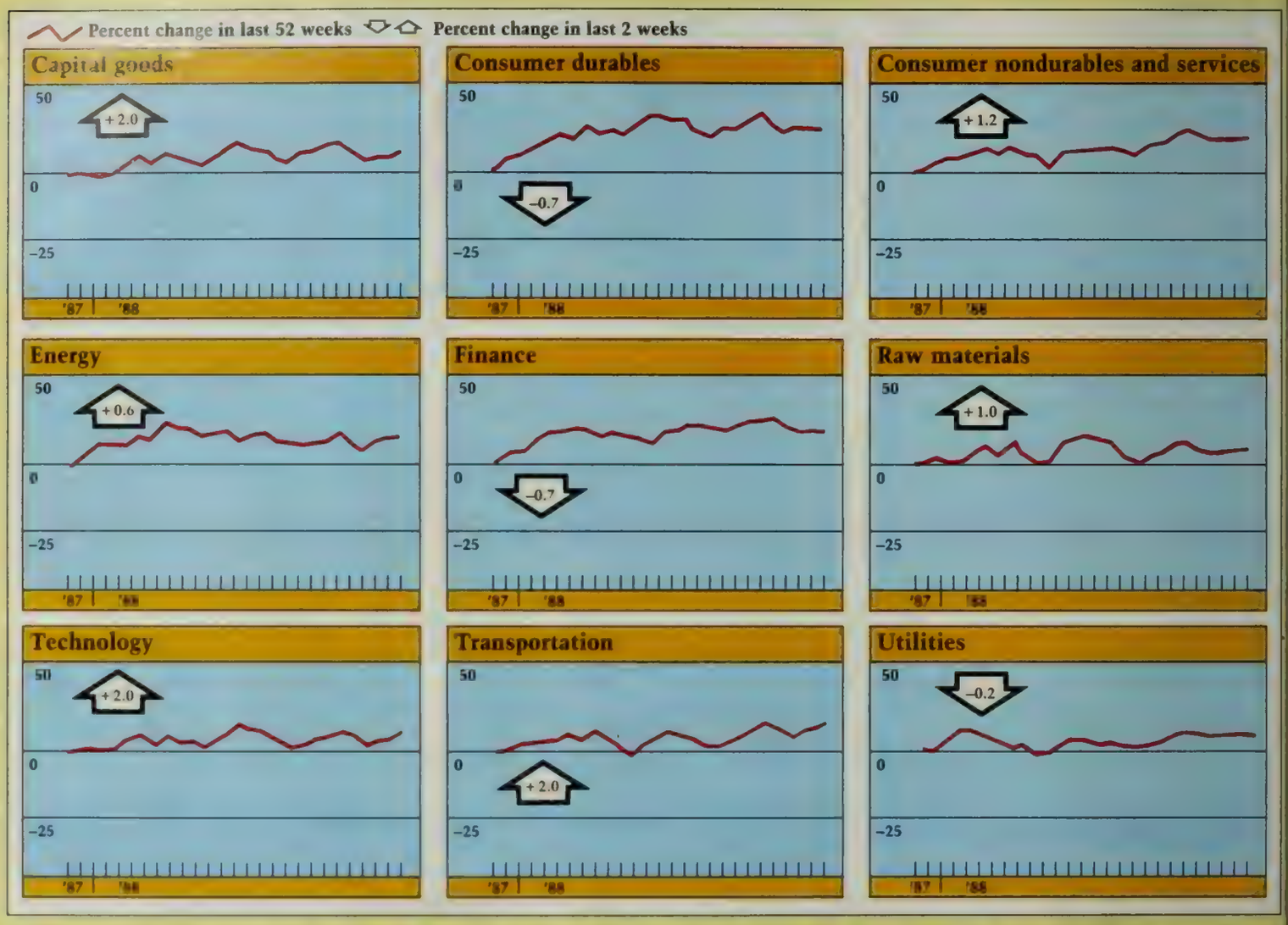
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 12/28/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Quantum mechanics. Raw materials as a group slightly outperformed the broad market, and the best-performing stock in the raw materials sector, Quantum Chemical, was a star—up 22% over the two-week period. On Dec. 28 this $3 billion chemical manufacturer and the largest producer of polyethylene in the U.S. announced a recapitalization plan, which included a special $50 dividend payment. On the day the news broke, the stock gained over 18 points, to 107⅛, a gain of 21%. What about the lucky holders of Quantum call options? The January 105s closed at $^3/_{16}$ (18¾ cents per contract) on Dec. 27. After the announcement, the option flew to 4¼—a 2,167% increase. The weakest groups during the last two weeks were consumer durables and finance; both fell 0.7%.



What the Analysts Think

A dose of reality for Genentech. Security analysts cut their 1989 earnings estimates for Genentech by 18% over the past four weeks. The stock now sells for less than a quarter of its precrash price of 65⅜. But this biotechnology pioneer is still not cheap: Based on the revised 1989 earnings forecast, it has a P/E of 25.8.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.26	12.0
1989 estimates	3.98	9.8
1990 estimates	NA	NA

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Consumer durables	$4.91	11.2	0.82%	1.19%
2	Capital goods	3.05	12.3	0.73	0.68
3	Transportation	2.87	10.1	0.63	0.67
4	Raw materials	3.50	8.7	0.33	0.39
5	Energy	3.16	11.6	0.03	–0.18
6	Consumer nondurables	2.79	12.3	–0.04	–0.21
7	Utilities	2.54	9.8	–0.05	0.19
8	Technology	3.23	10.8	–0.19	–1.13
9	Finance	3.80	7.4	–0.80	–0.95

Earnings projections are capitalization weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm. NA: Not available

Note: All data for periods ending 12/28/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York

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One theory says you should buy the best-performing fund in the worst-performing sector. If you like that idea, you should buy funds that focus on small company stocks.

The "good fund, bad sector" theory

By Jonathan Clements

Most investors pick a fund because of its long, impressive record.

A very different approach is to pick a fund on a more contrarian basis, choosing funds that specialize in market sectors that are out of favor. You find the best funds in these categories and wait for the turn. Gold funds, for instance, have done badly as a group over the past five years. Precisely for that reason, gold may be a good investment now, since the disinflation of the 1980s could give way to the inflation of the 1990s. Using that reasoning, you'd buy one of the better gold funds now even though it compares badly with the stock market.

Such a case can be made for funds specializing in small companies—those with $500 million or less of stock outstanding. Small stocks have done badly of late. Over the five years to September 1988, the Russell 2000, a small-capitalization-stock index, averaged a 7% annual gain, against 14.7% for the 500 large S&P stocks.

As against this rotten recent showing, however, the long-term case for small caps is strong. "Historically, small company stocks have outperformed the S&P 500," says San Francisco-based investment adviser Kurt Brouwer. "They're now more undervalued relative to the S&P than at any time in recent history."

Which are the best small-company funds? Five have outperformed the S&P 500 over the last decade *(see table)*. A sixth, launched in 1983, beat the S&P over the past five years: GIT Equity Trust–Special Growth.

These six funds have in common a policy of picking small companies, but there the similarities end. Kemper Summit, for instance, dabbles in embryonic companies. It earns an A in up markets under the FORBES rating system and a D in down markets.

The stock-picking process couldn't be more different at Pennsylvania Mutual, which earns a C for bull markets and a B for bear markets. "We have a high preference for companies that sell cheaply on a valuation basis but also have very favorable internal characteristics," says portfolio manager Charles Royce. Favorable internal characteristics? That's Royce's euphemism for free cash flow, a measure of how much cash is left at year's end from operations, after maintenance-level capital spending.

Among Royce's recent buys is Detroit & Canada Tunnel Corp., which owns a 1-mile toll tunnel connecting Detroit and Windsor, Ont. The o-t-c company, 58% owned by one of its directors, recently traded at 21. The company's book value is $14.90, including $5.60 in cash; it owns downtown real estate in Detroit and Windsor that is on the books at 1936 prices.

Another recent Royce purchase is closely held Thomaston Mills, a nonunion manufacturer of fabric for luggage, pillowcases and radiator hoses. The firm recently traded at 14¾, six times its trailing earnings and two-thirds of its $22 book value.

Thomaston and Detroit Tunnel are hardly growth stocks. Says Royce, "We do not spend time dreaming about a company's future, because that's an invitation for an LSD investing style," LSD being his way of saying head-in-the-clouds.

LSD investing? Tell that to Richard Carney, who runs the GIT Equity Trust–Special Growth Fund. Carney looks to buy fast-growing companies, but avoids anything highly leveraged or high tech. Says he, "If I can find the leading company in any funny kind of business and the math makes sense, I'd much prefer that than the 12th-largest Winchester disk drive maker."

Carney owns stocks like J&J Snack Foods, a pretzel firm going for 17 times earnings, and WD-40, which owns the trademark to a spray lubricant and goes for 15 times earnings. "I look for high return on equity, low debt and consistent growth," says Carney. "When you get that, you've got companies that are very attractive from a buyout point of view because the acquiring company doesn't have to pick up any debt."

The important thing in choosing a money manager is to get one who has proved himself at one style of investing and has the sense to stick to it. Styles go in and out of favor. Under the circumstances, it makes a lot of sense to first pick a style that seems due for a rebound and then pick a manager who can take advantage of the rebound when it comes. ■

Prettiest hogs

Small company stocks are due for a rebound. But it's not easy to find a small-cap mutual fund with a decent record. Here, six winners.

Fund	Assets ($mil)	Expenses per $100	Maximum sales charge	Annualized return[1] 5-year	10-year
Acorn	$530	$0.82	none	15.2%	17.4%
GIT Equity Trust-Special Growth	16	1.50	none	16.8	NA
Kemper Summit	276	0.66	8.5%	7.3	15.6
Over-the-Counter Securities	287	1.00	4.5	8.4	16.4
Pennsylvania Mutual	358	0.99	1.0	13.4	17.1
Quasar Associates	100	1.33	5.5	10.8	20.4
Nasdaq Composite Index[2]				5.5	11.3

[1]Includes reinvestment of dividends [2]Excludes reinvestment of dividends NA Not applicable

Sources: Lipper Analytical Services, Forbes CDA Mutual Fund Evaluator on diskette

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Despite the flattening yield curve, there will be good buying opportunities in long-term Treasurys later this year.

THE LONG BET

By Ben Weberman

What put the funny slant in the yield curve? And what should investors do about it?

The first question is easier to answer. Yields on U.S. Treasury issues, the benchmark measure for all fixed-income issues, have flattened and indeed have inverted. That is, you get lower yields on long bonds than on short bonds. Ordinarily, the curve is sloped upward, with longer maturities offering better returns.

Why the inversion? The Federal Reserve is undertaking a squeeze on short-term credit that is raising money market yields, that is, the yields at the short end of the spectrum. At the same time, long-term investors are becoming increasingly convinced that concerns about inflation are exaggerated and that the Fed will be successful in bringing price indexes under control. So far, so good: In the 12 months ended in November, the Consumer Price Index climbed only 4.2%, to 120.3.

It's a supply-and-demand equation. The supply of short-term money is tight because people with money (such as pension fund managers) would rather lend long, locking up today's 9% interest rates for as long as possible. The demand for short-term money, however, is as great as ever. Among the borrowers: the federal government (which is financing its deficit with a lot of short-term bills but not that many long-term bonds) and Christmas spenders (whose credit card borrowings represent short-term debt).

The tougher question: What should investors do about all this? If you have $50,000 sitting in a money market making 8%, should you leave it there or maybe buy a long Treasury?

Normally, you'd be rewarded for taking the greater chance on a 30-year Treasury bond. It would pay 1% to 2% more than a 2-year Treasury note, and 2% to 3% more than a 91-day bill. Why is the bond chancier? This security is subject over an extended period of time to the influences of inflation, supply and demand and other events that can't be foreseen so far ahead. It's a lopsided kind of chanciness, too: There is some chance that the government will turn on a money spigot in 1995 and run inflation up 10 points, to 15%, wrecking your bond, but there isn't much chance that the government would lower inflation by 10 points, to minus 5%, giving you a windfall.

Currently, an investor buying Treasury issues gets a yield of a little more than 9% on almost any maturity. In fact, a 2-year issue pays around 9.15%, as does a 5-year issue. Over the longest maturities, between 20 years and 30 years, the yield to maturity drops from 9.15% to just over 9%. The shortest end of the spectrum is T bills. They were recently yielding just over 8% on the discount basis on which they are usually quoted. But that translates into 8.4% on a bond-equivalent basis.

Long term, I'm a bull on bonds. But my sources in the money markets make a good case that, over the next six months, all yields will inch up before turning around. Thus, I would recommend holding off purchases a while, then making a long-term commitment that will profit the most from a low-inflation, low-interest-rate environment.

Short-term interest rates will rise beyond 9% as a direct reflection of the central bank's tightening of the credit screws. Long-term yield increases will lag because investors will accept the notion that inflation pressures will come under control.

Forecasters with moderate views foresee short rates rising another 50 to 75 basis points while long rates will go up 25 to 50. Two-year notes will peak out just under 10% and the 30-year bond will hit 9.5% under this scenario.

A more extreme projection comes from Charles Lieberman, who's in charge of financial markets research at Manufacturers Hanover Securities Corp. He puts his forecast in the form of the return on 3-year notes and thinks they may hit a yield of 10.5% to 11%. The 30-year bond return could reach 10% to 10.5%.

Under either pattern, the period of curve inversion may last for a year or more before the slowing economy starts to reduce rates. Why a slowing economy? A spike in short-term rates relative to long rates is almost always a precursor of recession or at least flattened growth. The typical pattern is for the Fed's anti-inflation tight money to force up short-term rates, then precipitate a recession that brings rates down and restores equilibrium in the money market. Inflation fighting, after all, comes at a price. In this case it will include a squeeze on banks that fund loans with short money and pressure on overleveraged corporations.

If, as seems likely now, we get an economic slowdown by midyear, then by early 1990 short-term rates (as measured by the two-year note) will be lower than today's 9%. In the interim, returns will hit 9.75% or a bit more. Long-term bond yields will be between 8.5% and 9% after peaking out at 9.5%.

But don't expect to be able to pick a bottom in bond prices perfectly. Ease into longer maturities as the year progresses. ■

Ben Weberman is a contributing editor of FORBES *magazine.*

Investors shun common stocks while plunging into far riskier things. Among the worst are commodity partnerships.

HEADS THEY WIN, TAILS YOU LOSE

By David Dreman

In spite of the market's impressive performance last year and an awesome record through the Eighties, individual investors are turned off by stocks. Unfortunately, many of them are turning from stocks to far riskier speculations.

Commodities trading is one of the major speculations where disgruntled equity money has flowed. The rapid upward gyrations of agricultural commodities during last year's drought resulted in many brokers' convincing their clients that this was the "only game in town." Predictably, that game collapsed, costing participants dearly.

But major brokerage houses, thirsting for revenue and well aware of investors' current infatuation with commodities, have come up with some new wrinkles to keep the suckers in the commodities game.

The chief gimmick is the new commodity partnership. For those who might be tempted, let's go through the mechanics to see how the game is stacked against you. Since the plans are similar in structure, let's look at the prospectus of a major one currently being offered by a large brokerage firm, the F-1000 Guaranteed Futures Fund L-P Series III. While the prospectus notes many dangers of commodities trading, it adds that the F-1000 has been designed to offset these major risks.

Sounds good. The partnership is put together as follows: The investor is guaranteed his principal back in five years. How? Well, the partnership buys a zero coupon Treasury bond with part of the proceeds (today's yield is about 9½%). Since a $1,000 five-year bond costs around $648, that leaves $352 for speculation. Even if the commodities portion vanishes, interest on the zero will make the investor whole.

Or so the brokers say. What they don't tell you is that this guarantee doesn't protect against the two consistent destroyers of capital: taxes and inflation.

If the investor is in a 33% tax bracket, he must pay that percentage of the imputed 9½% return annually in taxes, even though he will not receive a penny for five years. Then there is inflation. If the rate simply continues at 4%, the investor will lose 22% of his purchasing power. Taxes and inflation together will cost most investors a minimum of 30% to 35% of their capital in terms of purchasing power.

So what they are "guaranteed" to get back isn't 100% of their original stake in real dollars but only 67%. Quite a difference.

Compare: In 1987, after the worst crash in history, the stock investor actually retained almost all of his capital and for the five preceding years far more than doubled it.

But remember, the hype said that these were minimum returns; the big money should be made in the commodities partnerships. Do the partnerships' advisers show a ten-year record of making money in commodities?

Are you kidding? The advisers use a computerized trading system that has worked successfully in the real world only since 1985. The only thing that is dated faster than a month-old newspaper is such a system. Tens of thousands have been put together since the 1960s, all guaranteed to be foolproof, but none has stood the test of time. There is no reason to think this one will do better.

And what does the investor pay for the doubtful privilege of investing in such a fund? Plenty. The brokerage firm gets a 6% guaranteed fee for all assets under management, including the zero coupon bonds. Thus, over the five-year life of the partnership the client pays over 30% of his initial capital and of any profits he makes in fees and custodial costs.

But to top even this, the client pays 15% of trading profits quarterly to the broker and manager. As an example, if the fund had a good quarter and was up 30%, 4.5% is immediately skimmed off the top by the broker. If the next six quarters are lousy and you drop 40%, tough luck, the losses are all yours. It's heads they win, tails you lose.

Yet investors who shun stocks as too risky are flocking to buy these commodity partnerships. P.T. Barnum was right. Forget these gimmicky "investments." Stick with solid, undervalued common stocks:

James River's (28) earnings have grown 20% annually in the past five years and are likely to be up more than 20% again in 1988, with another good increase next year. Since it is a net purchaser of raw material, falling paper prices—when they occur—will improve margins. JR trades at a P/E of 11 and yields 1.7%.

Even after dilution from the Kraft merger, *Philip Morris* (101) should show a minimum 15% growth rate over the next few years with much more diversified product lines. MO trades at a P/E of 11 and yields 4.4%.

Unilever NV (58) is one of the giant multinational consumer product companies. Cost-cutting, productivity gains and continued 6% to 7% revenue growth should result in earnings increasing at a rate of more than 10% over the next several years. The stock trades at a P/E of 11 and yields 3.4%. ■

David Dreman is managing director of Dreman Value Management Inc., Investment Counsel, New York, and author of The New Contrarian Investment Strategy.

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It's one of those markets where you can't give away four quarters of up earnings potential for a plugged nickel.

BIG PLAYS

By Ann C. Brown

In my last column, "Penny Annie Stocks" (*Dec. 26, 1988*), I named my annual low-priced picks of first-rate, third-tier equities. Traditionally, after this appears, there is considerable upside activity in these single-digit stocks, probably because of the January Effect coupled with investor willingness to take a chance on bargain-price issues.

This time around, by and large, the stocks mentioned in this column went gloriously unnoticed—a signal to me that for the first time in years the public was avoiding this type of stock, at least for the moment. It's one of those markets where you can't give away four quarters of up earnings potential for a plugged nickel.

I have decided to add a follow-up list of big-ticket, big-capitalization companies whose very bigness should inspire confidence in investors who were gored in 1987 and bored in 1988. Some are rumored takeover candidates. Most are solid total return situations whose earnings-per-share growth coupled with attractive dividend yields should offer inflation-edgy investors an appealing alternative to bonds.

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

Bristol-Myers (46) recently boosted its dividend a whopping 40%, from $1.40 per year to $2, which gives the stock a 4.4% yield at the present price. Pair this with BMY's estimated earnings-per-share increase of 14% this year (from $2.90 or so for 1988 to $3.30 for 1989) and you have a potential of 18% to 19% total return—a money market- or bond-beating performance any day.

Or how about *Coca-Cola* (45)? A super buy for investors who are shy of cyclicals because of a possible end to the long economic expansion and/or upward pressure on interest rates. KO is selling at its recent 15-month high and appears to be on a miniroll. For 1989 earnings per share could be around $3.30, up from an estimated $2.80 for 1988. The 16% projected rise in earnings plus the 3% dividend is the "real thing" in total return.

Walt Disney (66) has a negligible dividend yield, but this is because the company is using its substantial cash flow to grow at an above-average rate of 33% per year for the fiscal year ended last September. The earnings-per-share growth rate could continue in excess of 20% for the foreseeable future—and the Bass Group could also decide to add stock to its already substantial holdings of DIS—thus supporting the stock price or pushing it higher.

Johnson & Johnson (86) is expected to earn $6.50 or more for 1989, up from an estimated $5.70 for the year just ended. The company has a potential blockbuster anemia drug and other new products that could contribute handsomely to earnings for the next several years. The stock sold at over $105 in 1987 and could be back up there by year-end.

A survey of one on several long automobile trips in 1988 has reinforced my belief in the sustainability of *McDonald's* (48) earnings. And MCD is doing more and more abroad, thanks to the drop in the dollar (which will likely continue this year). Expanding domestic and foreign operations should help keep the company's total return in the neighborhood of 15%, which is McFine for most investors.

Philip Morris (101) has done an excellent job in this takeover-or-be-taken-over world. Some fear MO may have paid too much for Kraft. I think not. While earnings per share may be up only around 12% this year because of the heavy interest charges, future growth could soon return to the 20%-plus area. Currently yielding 4.5%, MO still offers a tempting total return of 16.5%.

I continue to think that *Pitney Bowes* (43) is one of the most attractive acquisition candidates around. Low debt, small insider holdings, a remarkably consistent cash flow and a ready access to most businesses in the country because of its postage meter entree are reasons enough. My guess is the stock is worth $70 per share as a takeover, $50 or more on operations as usual.

Quaker Oats (52) could provide investors with an estimated total return of over 20% for this year and probably as much for the next few years, unless someone decides to take the company over and give stockholders a 30% to 40% return on their investment in a hurry. OAT has everything corporate raiders seem to want these days—and may get before the year is out.

Another attractive possible takeover situation is *Rubbermaid, Inc.* (25). RBD has little debt, and the company's many low-price "necessity" products make it relatively recession-proof. In addition, the marketing and distribution system is enviable, and the product name is one of quality, which is useful in horizontal integration. Preliminary stock price objective: $32 or more 12 months from now.

Syntex (41) has been rumored and rerumored to be a takeover candidate, and I'm a believer. SYN is very attractive, with its earnings per share estimated to rise 17% or more this year and its 3%-plus dividend yield. If there is fire where there is smoke, I expect SYN could go out in a blaze around $65 per share in any bidding war, maybe more. ■

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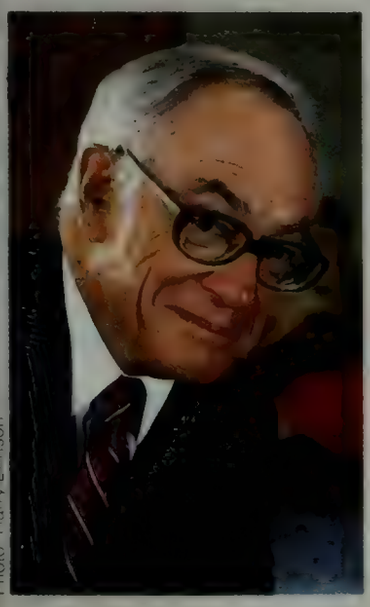
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Government bailouts have postponed a financial crash for years at the expense of making it worse when it arrives.

FALSE CONFIDENCE

By Ashby Bladen

At the end of the 1980s we Americans are sailing a course that will eventually land us in the same inflationary depression that much of the Third World has been suffering for the last half-dozen years. As long as we stay on that course, another crash can happen at any time, and the most prudent investments you can make are the highest-quality and most liquid ones you can find.

I have had so many requests recently for my first book, *How to Cope with the Developing Financial Crisis*, that I had better tell you again why you can't find it in the bookstores. I know the title sounds as if it were written yesterday, but in fact it was written in 1979. The crisis it refers to is the one that would now be far behind us if the Fed hadn't lost its nerve in 1982.

The financial gale that is still intensifying started to blow in the early 1960s, when the new economists of the Kennedy Administration promised us that they would abolish even minor recessions by a combination of government deficit spending and easy credit for everybody. Their policies led thoughtful people to decide that the risk of getting into financial trouble had been reduced, while the risk of inflation had increased, so the thing to do was borrow heavily to buy real things as inflation hedges. That touched off the first round of merger mania and set the stage for the near-crisis of 1969-70.

In January 1968 the New School for Social Research had a seminar for financial types on the outlook for Wall Street and the economy. I argued that the Fed would soon have to inflict a credit crunch to restrain inflation, and that would cause a crisis for the conglomerators who had borrowed not wisely but too well to buy up other companies. Afterward I had a long talk with Henry Wallich, Yale economics professor. Wallich was born in Germany, and had lived through the hyperinflation of 1920-23. He emphatically agreed that sooner or later the Fed would have to break the inflation with a crunch severe enough to scare us all back into lasting prudence with respect to borrowing and spending.

The Fed clearly did not realize that the price of breaking the borrowing-and-spending spree would be a financial crisis, and when it did realize it in 1970, it panicked and relaxed the crunch before it had done any permanent good. But when Wallich became a governor, I assumed that the Fed had learned its lesson. I wrote *How to Cope* to urge the American people to accept the pain of the next crunch, because if the Fed tried and failed a fourth time, we would borrow and spend ourselves into a real disaster.

In 1982 the Fed panicked again. I still believe that at least Volcker and Wallich were willing to pay the price of a domestic crisis, but when Mexico announced that it was about to default, they realized that the price of continuing the crunch would be a worldwide crisis of incalculable dimensions. That price they were not willing to pay.

My own view was that the Third World's problems were already insoluble, but since it was clear that the main thesis of my book was not working out, I bought the remaining copies back from the publisher and pulled it off the market. Since then the rate of debt formation has gone through the roof, and I will publish another book when the American people start to think about how to cope with a disaster.

Because the last financial disaster we experienced was the deflationary depression of the 1930s, the political imperative is to fend off another one at all costs. So the governments of most countries that are not completely bankrupt are bailing out every overextended domestic borrower on the credit of the state, ignoring the fact that universal bailouts make borrowing excessively in order to bid up the prices of inflation hedges into a riskless game of heads I win, but tails the taxpayers lose. That is how countries like Argentina, Brazil and Mexico managed to create runaway inflation, in spite of the fact that the burden of debts worldwide is far greater now than it was at the beginning of the Thirties.

When a country starts to borrow excessively abroad, the inflow of capital pushes the foreign-exchange value of its currency up as long as its creditworthiness remains unquestioned. But once the creditors realize that it cannot possibly carry its debts at anything like the current foreign exchange rate, it starts to depreciate. That means the country's exports earn it less, and its imports cost it more, so the standard of living declines. We have so far avoided paying this price mainly because the dollar price of oil has fallen so much.

We Americans are not yet used to thinking of ourselves as an overindebted banana republic, but in fact we are doing exactly the same things they did. The crash I predicted a decade ago has not been avoided; it has simply been put off. It will finally come when we are forced to realize that we cannot bail everybody out forever. Meanwhile, we are still on course for new peaks of inflation and interest rates. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

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ston, MA, Dec. 1—The board of directors of Affiliated cations, Inc., voted today to raise the quarterly divi- from $0.05 to $0.055 per share payable to March 1, to shareholders of record on Feb. 13, 1989.

is represents the 16th consecutive yearly dividend ase since the formation of the company.

iliated Publications, Inc. is the parent company of Newspaper Company, publisher of THE BOSTON E. It also owns Billboard Publications, Inc., a leading sher of specialty magazines and books for the arts, n and entertainment markets, and publishes and s regional special interest books and travel guides gh its Globe Pequot Press division.

addition, Affiliated owns 61,538,000 shares of McCaw lar Communications, Inc., the largest cellular tele- e systems operator in the United States and one of the n's top six paging operators.

ontact: Daniel Orr, vice president of Affiliated Publica- Inc., 135 Morrissey Blvd., Boston, MA 02107. Phone: 929-3035.)

TEK, INC. **N-P**

John P. Dandalides Elected President of AMETEK

W YORK, N.Y., Nov. 21, 1988—John P. Dandalides, tive Vice President of AMETEK, Inc., has been elected dent and Chief Operating Officer as well as a member e FORTUNE 500 industrial manufacturer's Board of tors, Dr. John H. Lux, AMETEK's Chairman and Chief tive Officer announced today. Dandalides replaces t L. Noland who is leaving AMETEK to become Presi- and Chief Executive Officer of Ketema, Inc., a newly- d corporation whose stock will be distributed to EK stockholders of record as of November 30, 1988.

ndalides joined the company's Lamb Electric Division industrial engineer and eventually headed AMETEK's -plant Lamb Electric motor manufacturing business. bsequently became responsible for the operations of of AMETEK's manufacturing divisions, becoming vice president in 1969, senior vice president in 1972, xecutive vice president in 1982. He is also managing or of AMETEK GmbH, headquartered in Wiesbaden, Germany and serves as chairman of the board of EK Italia and of Elettromotori Crema, SPA, an electric manufacturer located near Milan, Italy.

or to joining AMETEK, Dandalides held engineering ons with U.S. Steel, General Industries and Jack & z Company. He served in the U.S. Army's military intelligence in the European and Pacific Theaters during World War II, and also during the Korean Conflict.

A distance runner, Dandalides, 65, has completed a number of marathon races in the past ten years including the New York City Marathon. He and his wife, Sophie, are parents of a son, Richard, and reside in Silver Lake, Ohio, and Dallas, Texas.

John P. Dandalides has become the sixth president in AMETEK's 58-year history. With 30 manufacturing plants and research facilities and 5100 employees worldwide, AMETEK is projecting sales after the spin-off this year of more than one-half billion dollars. Its stock has been traded under the symbol AME on the New York Stock Exchange since 1930.

(Contact: Chelle Carlson, AMETEK, Inc., Station Square Two, Paoli, PA 19301. Phone (215) 647-2121.)

AMETEK, INC. **N-P**

AMETEK'S 15¢ FOURTH QUARTER DIVIDEND COMPLETES 39TH YEAR OF HIGHER PAYMENTS

NEW YORK, NY (NOVEMBER 16, 1988) The board of directors of AMETEK, Inc. (nyse/pse-AME) today declared a regular quarterly dividend of 15 cents per share for the fourth quarter ending December 31, 1988. The fourth quarter dividend is payable December 23 to stockholders of record December 9.

"This final payment for the year makes 1988 the 39th consecutive year in which the company has increased cash dividend payments to its stockholders, a unique record among New York Stock Exchange-listed industrial manufacturers," according to AMETEK's chairman Dr. John H. Lux. He said that the company's total payments in 1988 of 60 cents per share was an increase of more than 14 percent over the 52½ cents which AMETEK paid in 1987.

(Contact: Darrah Ribble, AMETEK, Inc., Station Square Two, Paoli PA 19301. Phone (215) 647-2121.)

CAMFREY RESOURCES, LTD. **V**

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(Contact: Terry W. Neild, Chairman, Camfrey Resources Ltd., Suite 1700, 355 Burrard Street, Vancouver, B.C., Canada V6C 2G8. Phone (604) 683-7303 or Steve Talent, Robyns Capital Corp., Phone (305) 743-3559.)

DYCOM INDUSTRIES, INC. **O**

WEST PALM BEACH, FL, Nov. 21—Dycom Industries, Inc. (NASDAQ: "DYCO") today reported for the quarter ended October 31, 1988 gross revenues of $36,621,664, a 48% increase over revenues of $24,732,297 for the comparable period last year.

Net income was $1,567,971, up 64% from last year's amount of $954,399.

Earnings per share were $.34 compared to $.21 last year.

(Contact: Thomas R. Pledger, President and CEO, Dycom Industries, Inc., P.O. Box 3524, West Palm Beach, FL 33402-3524. Phone (407) 659-6301.)

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The good news is that corporate insiders are buying more than they're selling. The bad news is that it may not mean much.

INSIDE INDICATION?

By Mark Hulbert

My last column focused on the current bearishness among the best-performing investment letters, as monitored by my *Hulbert Financial Digest*. Only one of the letters whose stock market timing has beaten a buy-and-hold since 1985 is a bull. Because the best-performing letters tend to keep on being right, that's a pretty ominous sign.

But what about the dissident letter? *Market Logic*, published by Norman Fosback and Glen Parker, always backs up its forecasts with an impressive amount of research. And currently it has a particularly strong argument: Corporate insiders are buying far more of their companies' stock than they are selling.

Market Logic reports that insider purchases and sales filed with the Securities & Exchange Commission show insiders currently are in the midst of a "veritable buying panic." This has resulted in the second-highest ratio of insider buying to insider selling in ten years. Given insiders' privileged insight into their companies' prospects, *Market Logic* reasons, their buying is bullish for the stock market as a whole.

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Minerva Books.*

This is not the first time that the "insider indicator" has faced a dramatic test. In early 1987 the best performers were cautious (if not outright bearish) whereas corporate insiders were very bullish *(see my column, Apr. 4, 1987)*. So far, the insiders have gotten the better half of that argument, with the average stock providing a total return since then of nearly 10%.

At first blush one would have to give the "insider indicator" good odds of winning the argument once again. A strategy of buying those stocks that insiders report buying and selling those they report selling has been studied extensively in academia, and its success in providing above-market returns constitutes one of the best-known exceptions (or anomalies) to the efficient-market hypothesis.

But note carefully: The academic studies of insider behavior have focused on its use in picking specific stocks—and not on its potential as a market timing device. And one recent academic study, by professors Wayne Lee and Michael Solt at Santa Clara University, has found that, while the volume of insider activity seems to be a good guide to market direction, the ratio of insider buying to selling is not.

It may not be so surprising that the ratio of insider buying to selling is a poor market timing indicator. Corporate insiders might have exceptional knowledge about their own companies, but why should they have any better insight than the rest of us into the course of the stock market as a whole? Alternatively, how do we know that their buying isn't concentrated in some specialized areas that may indeed do well, although the overall market goes down?

Cornell University finance professors Steven Carvell and Avner Arbel, who themselves act as advisers to a new investment letter, *Generic Stock News*, say that "corporate executives know very little about how their company will fare against the rest of the stock market." Carvell and Arbel conclude that we should be "wary of summing up all this ignorance and using it as a market barometer."

In another recent study professors Michael Rozeff (University of Iowa) and Mir Zaman (Loyola University of Chicago) question whether the "insider anomaly" exists independently of two other well-known anomalies: the tendency for stocks of small-capitalization companies and of those with low price/earnings ratios to outpace the market.

Rozeff and Zaman discovered that insiders, on balance, buy stocks of low-cap companies and low P/Es and sell stocks of high-cap companies and high P/Es. The investor would do no better by imitating insiders' buying and selling than he would do simply by constructing a portfolio out of low-cap and low-P/E stocks.

What does this mean? Instead of focusing on the insider anomaly as a market timing device, it suggests we should shift our attention to these broader anomalies of which it is a subset. Only one of them—the P/E effect—lends itself to timing the market.

And right now, according to the *Value Line Investment Survey*, the average price/earnings ratio on the 1,700 stocks in its universe currently stands at 11.4—on the high side of the midpoint between the record low P/E of 4.8 set at the 1974 bear market low and the record high P/E of 16.9 set at the 1987 bull market top. While this measure implies that the stock market has worked off some of the overvaluation excesses set at the 1987 bull market peak, it provides a sobering counterbalance to the screamingly bullish readings of *Market Logic*'s "insider indicator."

With this further analysis, therefore, the bearish case formed by the best-performing newsletters begins to look even stronger. The "insider indicator" seems a strong exception to the prevailing bearishness. But it may need further refinement. ■

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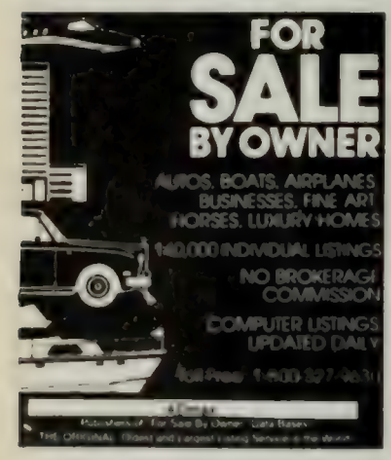

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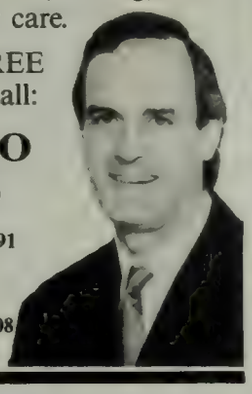

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Edited by Thomas Jaffe

Drug deals

If 1988 was the year of the superdeal in consumer products—RJR Nabisco, Kraft and Pillsbury—will 1989 be the year of the drug wars? We already had a taste of this last year: American Home Products won the battle for A.H. Robins; Eastman Kodak beat out Hoffmann-LaRoche for Sterling Drug. Several of the big pharmaceutical houses—including Bristol-Myers, American Home Products, Warner-Lambert and Syntex—are trading near 12-month highs.

Nor has it passed unnoticed that one of the first four companies to adopt Shearson Lehman Hutton's recent scheme for unbundling common shares into separate stock units is Pfizer, a perennial subject of takeover rumors. A possible side effect of the Shearson plan could be to make an unwanted takeover more difficult to accomplish.

The logic behind a further consolidation of the drug industry is similar to that adduced to explain the big food acquisitions. Successful brand names take a long time and lots of money to develop. Cheaper to buy than to build. Moreover, the buyer is buying itself more shelf space in the marketplace, and potentially cutting both distribution costs and overhead.

So it is with drugmakers. They spend hundreds of millions annually on research and development, wait years for their drugs to be approved, and then earmark fortunes to sell those products. This, when the pharmaceuticals industry is becoming increasingly competitive and the marketplace has turned truly international. Not only would mergers lead to bigger, more comprehensive R&D efforts from which to supply that market, but also distribution channels could be consolidated and scores of sales people eliminated. The intended result: higher profits.

Who might the buyers be? Look first to the big European and Japanese pharmaceutical houses. They can afford to pay up, especially if the dollar remains weak. Definitely don't count out Switzerland's Hoffmann-LaRoche, which failed to snare Sterling in its first hostile takeover bid ever.

Then there are the big, well-capitalized U.S. industry leaders such as Merck and Squibb. Streetwalker sees them more in the role of potential white knights should a fellow U.S. competitor be attacked. Finally, big chemical companies such as Du Pont and Dow, which are building substantial drug operations of their own, may not be averse to expanding through acquisition. Whoever the buyers, it's a good bet that hunting season among the small and medium-size drug companies is open.

John Howard

Down on the farm

Between 1985 and 1986 Allied Products Corp.'s earnings almost tripled, to $3.36 a share. From the beginning of 1986 through early 1987 its share price doubled, getting as high as 45½ on the Big Board. But then everything—from the weather to bookkeeping policies—started to come apart for the Chicago-based manufacturer of agricultural equipment. In 1987 the company lost 77 cents a share, and it will be lucky to earn 60 cents this year. The stock was recently at 15½.

But analyst Mitchell Quain of New York's Wertheim Schroder & Co. thinks the tide may turn again in Allied's favor. He notes that $580 million (estimated sales) Allied has made several acquisitions over recent years, and accumulated over $200 million of net operating loss carryforwards. Its strategy was to buy depressed businesses that could be bought at big discounts to book value, then cut costs and leverage those operations through the distribution of a broader line of products.

Quain thinks that strategy may yet work, particularly in the case of farm machinery, which accounts for roughly half of Allied's revenues. (The other half comes mainly from automotive presses, dies and assemblies, and other industrial products.) After being set back by the drought, this market once again is showing higher orders.

One caveat: The company's long-term debt outstrips shareholders' equity by 1.15-to-1, with roughly $100 million of that tied to the prime rate. Even so, analyst Quain thinks Allied could earn as much as $2 a share in 1989. With the stock already having sold off sharply, he figures the downside is limited and thinks the shares could move into the low 20s over the next 12 months. There are 5 million shares outstanding. Insiders own some 28%, an employee trust another 10% or so.

Ametek backwards

One way to help cure flat earnings is to spin off whatever is holding profits down. That's precisely what Ametek, Inc., the diversified industrial company, did last month when it spun off roughly 30% of its sales base to shareholders. The new company, dubbed Ketema, Inc., has caught the eye of analyst Charles Neuhauser of Bear, Stearns.

At first glance, admits Neuhauser, Ketema looks like a collection of losers. Last year, he estimates, the Bensalem, Pa.-based company lost more than $8 million, or $1.85 a share, on sales of $190 million. The biggest problem has been the $55 million (sales) Straza division, which makes jet engine components. Production costs here have risen sharply in order to meet increased quality control requirements set by General Electric, one of its primary customers. Research and development expenses related to Ketema's effort to develop a mini-supercomputer have also been a big drain.

But, says Neuhauser, the company has promised to decide sometime this year whether or not to continue the supercomputer project; so it could be a goner. As for Straza, it has generated operating margins well in excess of 10% in the past.

Otherwise, Neuhauser notes that Ketema's industrial products business—this includes aluminum extrusions and heat exchangers—is doing fine. With roughly $90 million of

sales, the division consistently records operating margins near 12%. Also doing well are such engineered products as pressure flow meters and centrifuges.

Neuhauser thinks that Ketema's earnings power by the early 1990s will exceed $2 a share. The stock (there are 4.4 million outstanding shares) trades on the American Stock Exchange at around 13—less than one-third its sales per share. And the balance sheet is solid. While there is an estimated $70 million of long-term debt, cash and equivalents total about $90 million; that's net cash of nearly $5 a share, leading Neuhauser to think Ketema's downside is limited.

Nord heads north

Dayton, Ohio is headquarters for $80 million (estimated 1988 sales) Nord Resources Corp., a mining company that produces the industrial minerals rutile and kaolin. Natural rutile—there's also a synthetic variety—is prized for its high titanium dioxide content. (The same goes for ilmenite, a titanium dioxide source also mined by Nord.) Because of its whitening power, titanium dioxide is a valuable ingredient in the manufacture of paint pigment. Nord's rutile operation is situated in West Africa's Sierra Leone, where the company's reserves, at the current rate of production, are expected to last well into the next century.

Nord's other main business is kaolin, which is used in coated paper. It mines this in Jeffersonville, Ga. Here, too, Nord is expanding, in part to accommodate expected demand for a new composite agent that will allow paper manufacturers to produce lighter-weight sheets with opacity and strength equal to that of heavy sheets. In addition, Nord mines perlite, a filtering agent for food, beverage and drug processing, and owns an interest in an Australian gold mine that began production in 1987.

According to analyst Vahid Fathi of Prescott, Ball & Turben, earnings from operations were down 40% in 1988, to an estimated 55 cents a share. This, because Nord's expansion in rutile dredging has proved costlier than anticipated. But Fathi expects earnings the following year to recover to at least $1.05 a share. Over the next 12 to 15 months he thinks the stock will go to 15, 60% higher than its recent NYSE price of 9⅜. There are 14.5 million shares outstanding; insiders own about 7.5%.

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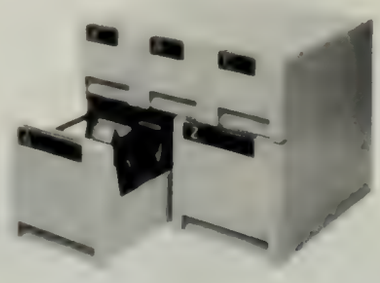
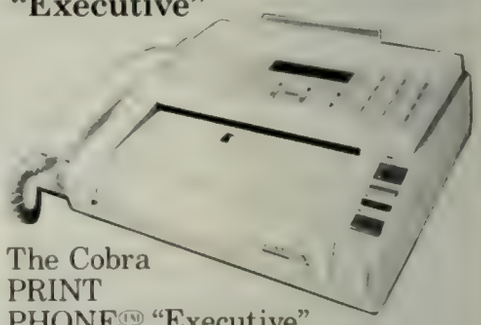


The Cobra PRINT PHONE™ "Executive"



The Cobra PRINT PHONE™ "Executive" (Model PP-114), designed for ease of use, is one of the most highly competitive feature-value packages now available in the desktop FAX marketplace. The "Executive" features contact-image sensor (CIS) technology and an integrated tone-pulse telephone with 70-number memory dialer. It utilizes 9600 bps modem speed for fast 20-second FAX transmission of a full-page document. Includes a sixteen-level grey scale for quality transmission of photographs and "Voice Alert" Control to resume a phone conversation. Cobra toll-free "hotline", 1-800-COBRA22, provides product information and dealer locations.

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Seventy years ago in FORBES

(From the issue of January 25, 1919)

"**I have a son** not quite three years old. At Christmas he received the usual variety of toys. He played for a few moments with his new automobile; he watched with delight his electric trains careening around the tracks; he eagerly explored the depths of a bountiful Christmas stocking. One glittering toy after another, however, was quickly discarded. Then in the recesses of the kitchen he discovered a broken egg-beater which had that day been thrown into the garbage can. He rescued it, and from then on . . . all his other toys were as naught."

—B.C. Forbes

Soldiers and workers demonstrate in Berlin for the new German republic

"**The November voting** has created the feeling that the present Administration is doomed. The Republican leaders in Congress, to say nothing of certain powerful Democratic leaders, have resolved to push President Wilson back to his proper niche in the form of government as laid down by the Constitution, and will not henceforth submit to being ignored or slighted. Advocates of the government ownership of the railroads (one hears in Washington) have concluded that the jig is up."

Sixty years ago

(From the issue of January 15, 1929)

"**Pan-American Airways** has announced plans which will shortly result in having 13,000 miles of mail, baggage and passenger air service in commission, taking in 21 countries of Central and South America. There would be two main routes, one down the west coast and the other down the east coast of South America."

Auburn was among the top eye-catchers at the 1929 New York automobile show

"**That the early part** of 1929 will witness further marking-up of stock quotations is the general expectation. My humble view is that the strain upon credit will cause the speculative boom to collapse this year. I fear, too, that disturbances in Wall Street will be sufficiently severe to have some adverse effect upon industry and general business. But this effect, if it materializes, should prove only temporary."

Fifty years ago

(From the issue of January 15, 1939)

"**There is little immediate chance** that automobile manufacturing companies will react favorably to the strongly urged proposal of Homer Martin, United Automobile Workers president, that the manufacturers should establish a group to do collective bargaining with the union on an industrywide basis. In the opinion of some leading executives this sort of action will never come about in the automotive field—and they may be right."

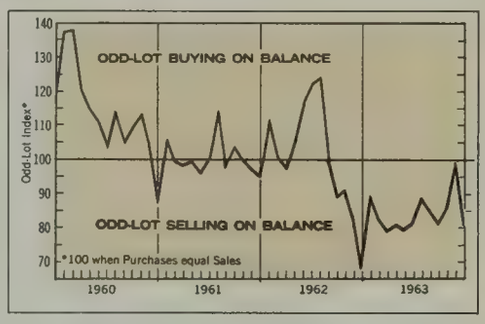
"**General upward** trend of business curve brings revocation of last year's pay cuts by some companies: Carnegie-Illinois Steel Corp., for salaried 5½-day workers (except higher executives); Studebaker Corp., for all salaried workers except chairman and president; Thomas A. Edison, Inc., for all workers except those earning less than $20 weekly (who were not cut); Cleveland-Cliffs Iron Co., for office workers."

Twenty-five years ago

(From the issue of January 15, 1964)

"**A mere 15 years ago** television generated revenues of just $8.7 million for four networks and 50 stations. Last year it was a $1.8 billion business for three networks and 565 stations—a two-hundred-fold expansion in revenues. A whole new industry was created and the leisure habits of Americans were remolded."

"**For Wall Street** 1963 was indeed the year of records. NYSE trading volume of 1.15 billion during the 12 months just ended set a new high. . . . A new record high for average daily volume of 4.6 million compares with previous highs of 4.3 million in 1929 and 4.1 million in 1961. Dividends, too, are expected to reach an alltime high."



Unaccountably, odd-lotters switched sharply to the sell side in late 1962

Ten years ago

(From the issue of January 22, 1979)

"**On the scoreboard** at the end of the Cotton Bowl football game in Dallas on New Year's Day, it was the University of Notre Dame 35, University of Houston 34. On the profit-and-loss sheet, Notre Dame's score was even more satisfactory. At a time when many college athletic directors are at their wits' end coping with soaring costs, Notre Dame remains in good shape. Even before it shows up for the postseason games like the classic in Dallas, Notre Dame ordinarily takes in nearly $3 million in regular-season football revenues. With an additional $670,000 from other sports (mainly basketball), it easily covers the cost of its total athletic program, $3.3 million, with about $270,000 to spare."

"**Periodically** U.S. businessmen and the U.S. press get excited about prospects of trade with the Soviet Union. A visit there goes a long way to dash such expectations. 'Picture the entire U.S. run by the U.S. Postal Service and you get some idea of the bureaucratic mess that prevails in the U.S.S.R.' That was what a high-level Treasury official said after he spent four intensive days negotiating with the Soviets."

Thoughts
on the Business of Life

Love is an energy which exists of itself. It is its own value.
THORNTON WILDER

Character is that which reveals moral purpose, exposing the class of things a man chooses or avoids.
ARISTOTLE

If there were no bad people, there would be no good lawyers.
CHARLES DICKENS

It is good to be without vices, but it is not good to be without temptations.
WALTER BAGEHOT

A disciplined conscience is a man's best friend. It may not be his most amiable, but it is his most faithful monitor.
HENRY WARD BEECHER

The difference between a moral man and a man of honor is that the latter regrets a discreditable act, even when it has worked and he has not been caught.
H.L. MENCKEN

So act that your principle of action might safely be made a law for the whole world.
IMMANUEL KANT

Honesty pays, but it don't seem to pay enough to suit a lot of people.
KIN HUBBARD

If your conscience won't stop you, pray for cold feet.
ELMER G. LETERMAN

Greater is he who acts from love than he who acts from fear.
SIMEON BEN ELEAZAR

Honesty is the cornerstone of character. The honest man or woman seeks not merely to avoid criminal or illegal acts, but to be scrupulously fair, upright, fearless in both action and expression. Honesty pays dividends both in dollars and in peace of mind.
B.C. FORBES

What is virtue? It is to hold yourself to your fullest development as a person and as a responsible member of the human community.
ARTHUR DOBRIN

And think not you can guide the course of love. For love, if it finds you worthy, shall guide your course.
KAHLIL GIBRAN

The language of love is spoken with a look, a touch, a sigh, a kiss and sometimes a word.
FRANK TYGER

Virtue, as such, naturally procures considerable advantages to the virtuous.
JOSEPH BUTLER

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Virtue has never been as respectable as money.
MARK TWAIN

Misfortune does not always wait on vice, nor is success the constant guest of virtue.
WILLIAM HAVARD

Honesty is often in the wrong.
LUCAN

At times, although one is perfectly right, one's legs tremble; at other times, although one is completely in the wrong, birds sing in one's soul.
V.V. ROZINOV

A Text . . .

Whatsoever things are true, whatsoever things are honest, whatsoever things are just, whatsoever things are pure, whatsoever things are lovely, whatsoever things are of good report; if there be any virtue, and if there be any praise, think on these things.
PHILIPPIANS 4:8

Sent in by James A. Bertelson, Golden, Colo. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

That which we call sin in others is experiment for us.
RALPH WALDO EMERSON

Loving someone means helping them to be more themselves, which can be different from being what you'd like them to be, although often they turn out the same.
MERLE SHAIN

RBES
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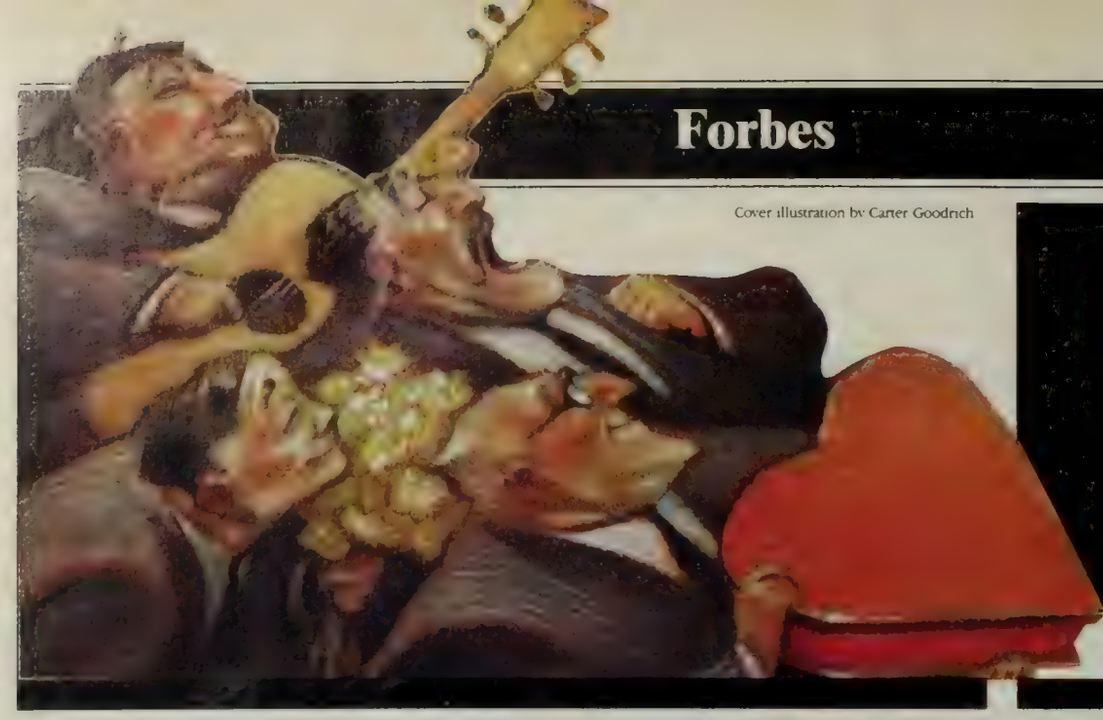

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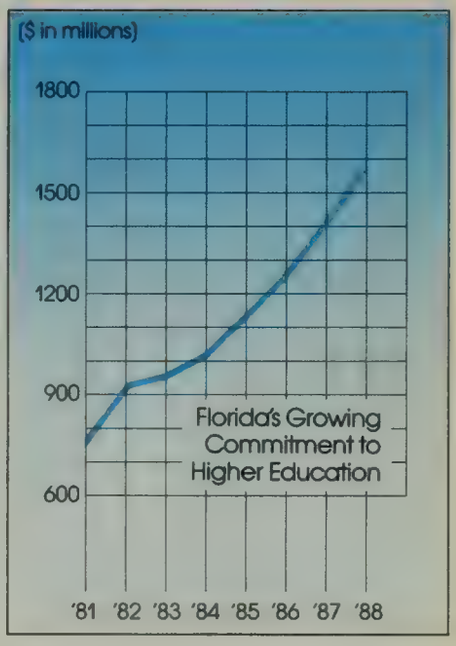

Funds for higher education in Florida have more than doubled since 1980, resulting in a top 10 ranking among the nation's state university systems.*

Florida's nine universities now support six engineering colleges, two law schools, nine programs leading to master's degrees in business and management, and four more leading to doctorates in computer and information sciences.

But well-educated employees are just one of the reasons businesses are attracted to Florida. For the complete story, contact the Florida Department of Commerce, Division of Economic Development, 501 Collins Building, Suite FB, Tallahassee, Florida 32399-2000; (904) 488-5507.

*Based on a national survey among university presidents.

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The blinding light of perestroika

Staquet/Collectif JB Pictures

Poster going up in Leningrad

Some journalists get their stories from deep throats, that is, from tipsters and leaksters. Veteran FORBES writer Phyllis Berman gets her newsbreaks by following her nose. Here's how she came to do the cover story in this issue, "The five-percenters: Moscow's pet capitalists":

Last September Berman was doing an article on how the Bass family of Fort Worth was buying into the cattle feedlot business. She came across the name Chilewich, a minor player in feedlots. Chilewich? He had made a fortune, she learned, trading with the U.S.S.R. Berman isn't the sort to leave a piece of information like that lying there. She found out that Chilewich was only one of a number of quiet capitalists who waxed wealthy doing deals in the U.S.S.R. long before Mikhail Gorbachev made his brave, bold break with the communist past. In the era of perestroika, surely these people were news. Her editors agreed, and Berman was off to Moscow. At home, reporter Dana Wechsler provided able assistance.

Surprise. Thanks to perestroika, many of these previously secretive capitalists were now willing to talk for publication. "They no longer feared that one wrong word in print would wipe out years of effort. They want to cash in on their experience and contacts now that perestroika fever rages," reports Berman. The account of these five-percenters starts on page 93.

Despite perestroika, Berman found the Soviet Union remains sunk in economic lethargy. She reports: "At the top level there are a few first-class people but some deputy ministers seemed political hacks, mouthing the new slogans but without conviction or sense of direction." Still, perestroika seems at least to have stirred a vision of something better. Berman: "When I asked two deputy ministers if they would consider moving into the cooperative movement if decentralization wiped out their bureaucratic jobs, they both said yes enthusiastically.

"Things are changing in the Soviet Union," Berman says, but slowly and more in prospect than in reality. The Soviets are like people kept for decades in a dark cellar and suddenly exposed to daylight. They blink. They are not yet used to the glare."

The larger context

The kid comes home from school and tells mom and pop that they are polluters of the environment and exploiters of the poor and of the Third World. On Sunday the preacher assails the profit motive. Turn on the TV and who is the villain of the show? A businessman or woman.

As pragmatists, business people know that capitalism maximizes individual freedom, that it is the best social/economic system yet devised. But they lack the vocabulary to explain it. Michael Novak, theologian, author and journalist, is one of the most eloquent and respected defenders of capitalism. In a new column, "The Larger Context," Novak will share with FORBES readers the depth of his knowledge about a system that benefits everybody but that few people clearly understand. Page 44.

James W. Michaels
Editor

Assembly Systems That Make Money.

Assembly is the most difficult of all manufacturing processes to automate. Successful implementation of automatic assembly involves not only the use of existing and emerging technology, the tools of automation, but also a sympathy for the available human resources, the parts variations and maintenance skills found on the factory floor.

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Follow-Through

Ami Arbus

Bad business

Oct. 20, 1986

Elliott Kroll

More than two years ago FORBES detailed the mess at California's Mission Insurance Group, a $1 billion (assets) company half-owned by a Forbes Four Hundred financier, Carl Lindner. In addition to fraud, securities violations and negligence suits, many brought by lawyer Elliott Kroll, the company was reeling from a shortage of capital. Soon after the FORBES story appeared the group went into Chapter 11, and its largest subsidiary, Mission Insurance Co., was liquidated, with an estimated $1.5 billion in losses, the second-largest insurance company failure in history.

Last September the Congressional Subcommittee on Oversights & Investigation, chaired by Representative John Dingell (D–Mich.), found that there was "substantial evidence of reckless and incompetent management . . . intentional deception, conflicts of interest and unfair personal gain" at Mission.

The committee has referred the matter to the Justice Department for action. No mud has hit Lindner or his American Financial Corp. holding company, but the financier sustained a loss in excess of $150 million in Mission's liquidation.—**Edward F. Cone**

Chris Steele-Perkins-Magnum

The bloke buckled

Oct. 7, 1985

Eddie Shah

Three years ago we wrote that Eddie Shah, Britain's union-bashing publisher, would make a big splash with his new daily, *Today*, the country's first fully computerized national daily newspaper. We were wrong on the prospects for *Today*, but right regarding its impact on technologically backward Fleet Street.

Technology and battling unions weren't enough to keep *Today* in the black. Shah lacked production know-how and editorial flair, and after a little more than a year the struggling *Today* was at last bought by Rupert Murdoch's News International in the summer of 1987. A second stab at the national market, the *Post*, also flopped quickly, leaving Shah now out of the newspaper publishing business entirely.

Out, perhaps, but leaving behind an impact that is still being felt. Shah, who didn't publish from Fleet Street, showed press barons like Murdoch and Robert Maxwell how to fight the unions successfully, even as he spurred them to update their printing and production technology. Result? British papers today are markedly more profitable, union membership and clout have fallen, as modernization and standing firm against unions have begun to pay off. All major papers have, or soon will have, modern computer technology. Many, including all of Murdoch's papers, have moved operations to other sites. (Only United Newspapers among the major groups is still on Fleet Street, and it will be moving soon.) Eddie Shah did change British newspaper publishing for the better; he just didn't do it quite the way he'd planned.—**Evan McGlinn**

George Steinmetz

Good idea

Nov. 19, 1984

Robert Reiss

Here's a better way to do a buyout, wrote FORBES four years ago regarding Eli Lilly's acquisition of Advanced Cardiovascular Systems. Lilly purchased the medical instruments company using a contingent payment agreement, or "earnout." What's that? A cash or stock bonus incentive program to reward company brass for continued service and high productivity under their new bosses. We touted the ACS earnout deal as a trendsetter, and a trendsetter is just what it turned out to be.

Last year's partial acquisition of Whittle Communications by Time Inc. was an earnout deal, as was the December 1987 buyout of Molecular Design Ltd., a California high-technology firm, by Robert Maxwell's Maxwell Communications. Lilly itself liked the idea well enough to use it again in 1986 when buying another medical firm, Hybritech.

Earnouts have helped all those deals by facilitating smooth transitions as the acquired companies have changed hands. In the case of the Advanced Cardio earnout, not only did the acquired managers earn 29 of 30 cash bonuses for meeting earnings goals, but all but one member of the senior staff stayed on with the company until the earnout was completed in July of 1988. Says Frederick Frank, a managing director of Shearson Lehman Hutton, who structured the Advanced Cardio deal as well as the Time Inc. buyout of Whittle, "These deals truly serve the interest of both parties, and they are rightly being used more and more."—**E.F.C.**

Shonna Valesky

Flat prediction

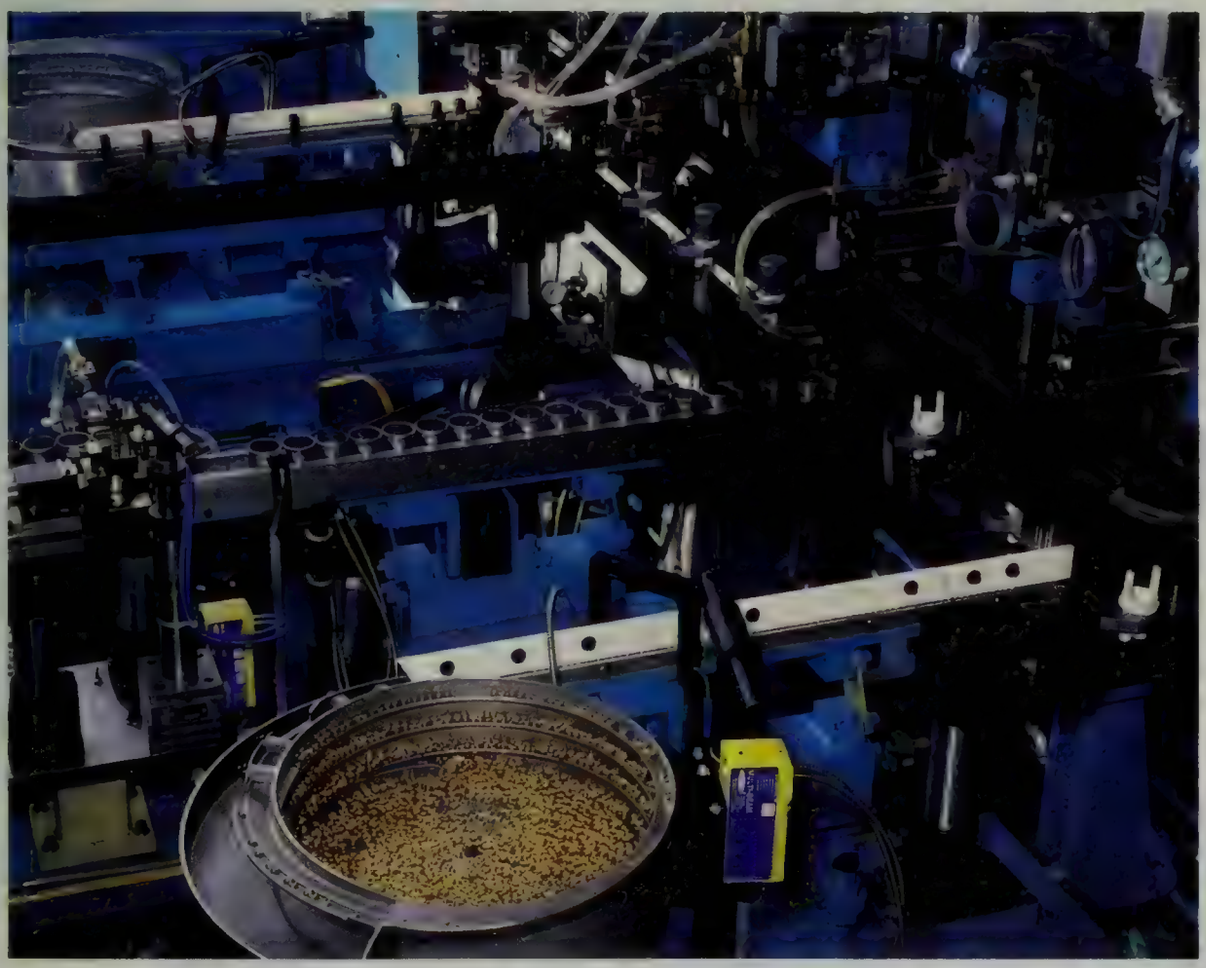
Feb. 8, 1988

Leo Van Munching Jr.

Heineken once held 38% of the imported beer market in the U.S. That was in 1982. A year ago the Dutch beer was down to 24.4%. Meanwhile, Corona Extra, Mexico's top-selling beer, was moving up fast as the U.S.' number two imported brand, with 17% of the market. FORBES thought Corona had a good shot at becoming number one, particularly because Heineken's U.S. importer, Van Munching & Co. of New York, was cutting advertising and raising prices.

We were wrong. Almost as fast as it rose, Corona sagged. Its sales dropped 6% last year and its share of the imported beer market was down to an estimated 15%. Heineken, meanwhile, held its ground. A hard-hitting ad campaign from Heineken's new agency, Warwick Advertising, helped boost sales an estimated 2% in 1988. Heineken is a long way from regaining its onetime preeminence: It slipped a further half-point of market share for the year, to an estimated 23.9%. Nevertheless, Heineken has clearly arrested its slide.—**Claire Poole**

Bodine Assembly Systems — Experience in Applying New Technology



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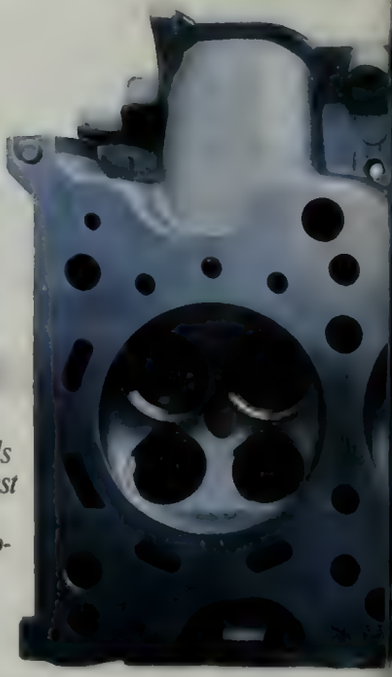
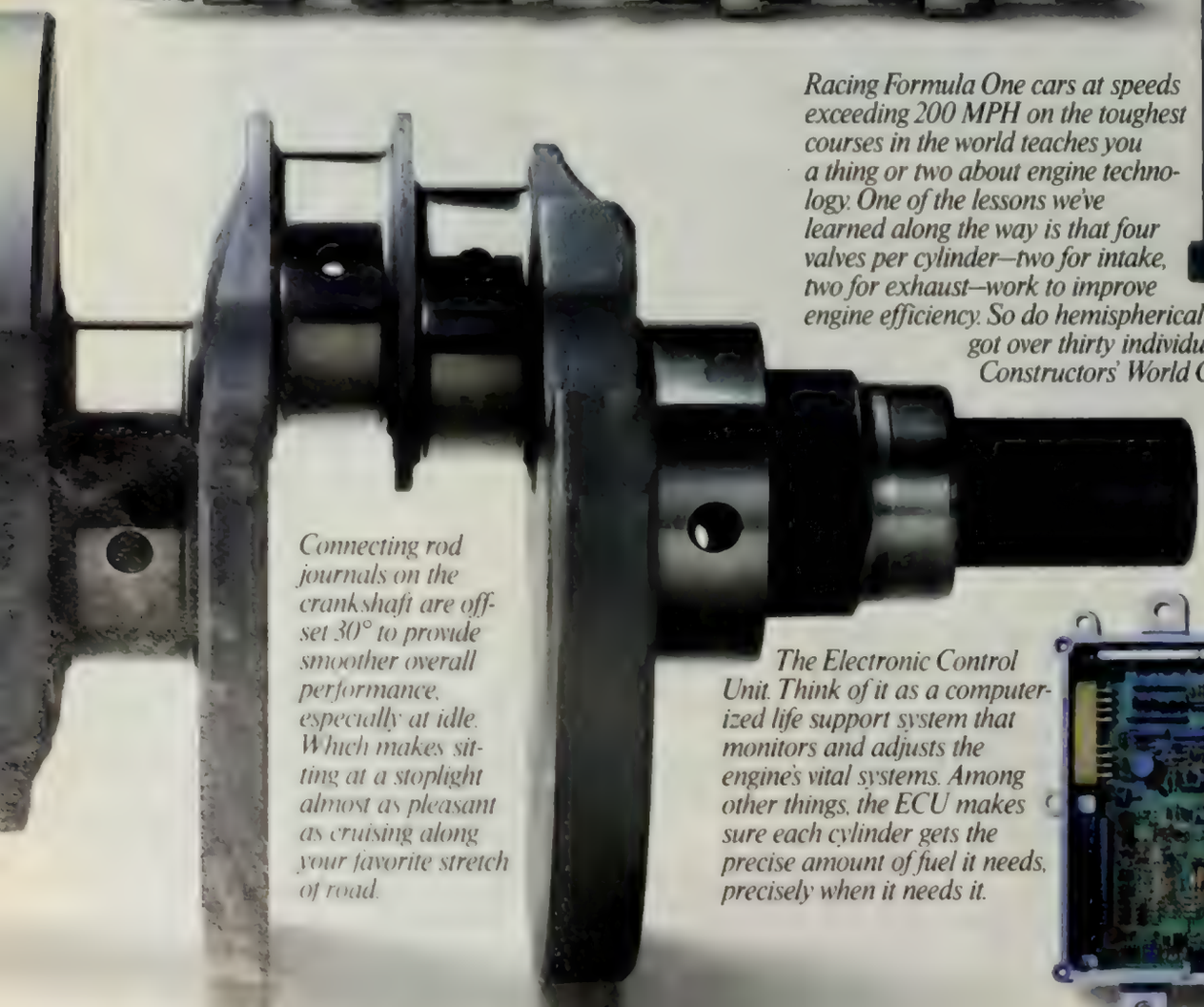
THE INTERIOR OF A LUXURY SEDAN AS SEEN BY THE ENGINEERS OF THE ACURA LEGEND.

When it comes to performance, timing is everything. A single camshaft over each bank of cylinders activates the six intake and six exhaust valves, assuring precise valve timing. Overhead cam design is just one reason why the Legend Sedan boasts 160 responsive horsepower.

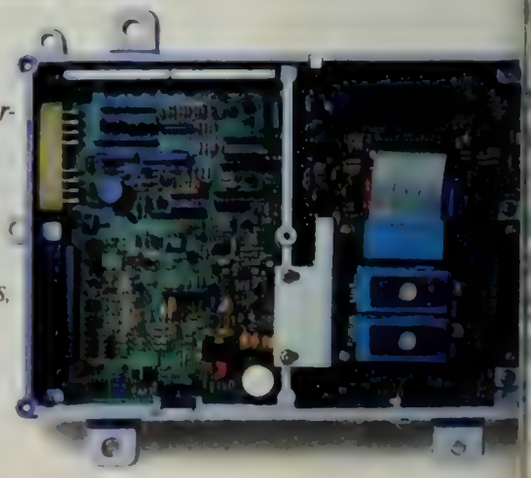


Racing Formula One cars at speeds exceeding 200 MPH on the toughest courses in the world teaches you a thing or two about engine technology. One of the lessons we've learned along the way is that four valves per cylinder—two for intake, two for exhaust—work to improve engine efficiency. So do hemispherical combustion chambers. And we've got over thirty individual victories and three Constructors' World Championships to prove it.



Connecting rod journals on the crankshaft are offset 30° to provide smoother overall performance, especially at idle. Which makes sitting at a stoplight almost as pleasant as cruising along your favorite stretch of road.

The Electronic Control Unit. Think of it as a computerized life support system that monitors and adjusts the engine's vital systems. Among other things, the ECU makes sure each cylinder gets the precise amount of fuel it needs, precisely when it needs it.



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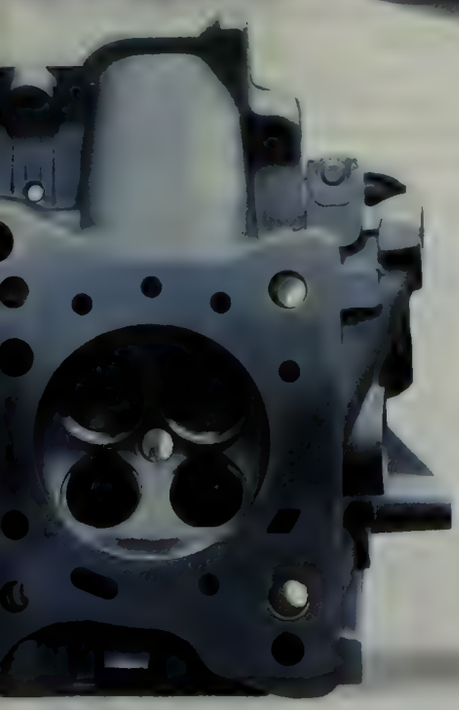
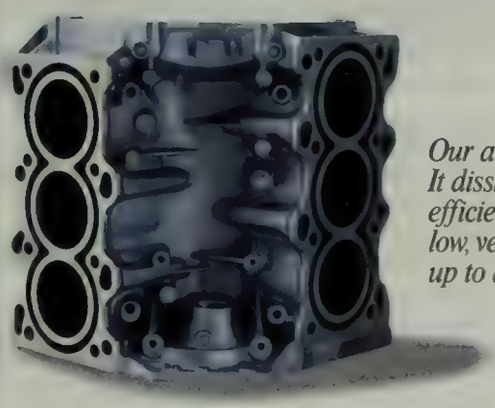
e Variable ake Control stem controls airflow to the gine, providing oother low and d-range engine formance and icker throttle ponse. In short, exceptional ving experience.

It's not enough to have pistons precision machined to exacting tolerances. Ours are also weight-matched to each other. And while a few grams may seem like an insignificant amount to quibble over, this kind of precision eliminates the irritating vibrations you can get from an imbalanced engine. Delivering smoother performance.





Our aluminum-alloy V-6 weighs less than cast-iron. It dissipates heat better, which makes for a more efficient engine. And its 90° V-angle makes for a very low, very aerodynamic hoodline. All of which adds up to a surprisingly fast Sedan.

If you asked most people hat makes one automobile ore luxurious than another, ances are they'd focus pri- arily on features like leather holstery and impressive und systems.

The engineers who signed the Acura Legend dan, on the other hand, ould give you a slightly differ- t response. They too would t a lot of emphasis on a ll-appointed interior, but interior in question would the one under the hood. The one that can take the Legend Sedan from 0 to 60 in under 8 seconds. And to a track-tested top speed of over 125 MPH.*

It's not that our engineers don't appreciate an elegant driving environment; after all, they spent a lot of time making the Legend Sedan both ergonomic and luxurious.

It's simply a matter of priorities. Because when it comes to luxury automobiles, there are interiors...and then there are interiors.

ACURA

Precision crafted performance.

Edited by Gretchen Morgenson

Kravis, king of the hill

Henry Kravis' modest digs in Vail, Colo.
A man's ski home is his castle.

Henry Kravis has been so busy buying RJR that he may not have had much time to use his knockout of a new ski house at Vail, Colo. though it's been ready since October. This isn't your typical little A-frame. The 8,200-square-foot gem set Kravis back a rumored $4 million plus—and no wonder. It features an indoor pool, an elevator and a private ski run cut out of the mountain so that Kravis can ski directly home for lunch or a sauna and avoid the plebeian lodge. The living room ceiling is so high the place needed a $40,000 spiral staircase to reach the topmost bookcases. For wainscoting, baseboards and molding, Kravis specified a rare Hawaiian fruitwood, 20,000 board feet of it. Mrs. Kravis—fashion designer Carolyne Roehm—flew their Colorado landscape architect to New York to discuss plantings with her East Coast landscape architect, so that things would be, you know, coordinated. Adjacent to the house is a separate home for the help.

We'd give you more juicy details, but somebody told the Community Board's office not to talk with reporters about the house—even on matters of public information.

Principled attorney

Houston lawyer John O'Quinn won a big one late last year: He clobbered Texaco Inc. for a reported $608 million in the largest take-or-pay case ever in a Texas state court. Company-busting antibusiness awards are scarcely news these days in Texas' bizarre court system, but this one has a twist. On the same December day he won that big one, O'Quinn lost an embarrassing case. The Texas Supreme Court rejected his challenge to a disciplinary suit brought against him by the State Bar of Texas. The Bar charged him with violating state rules prohibiting attorneys from hiring "runners" to buttonhole accident victims and grieving widows. You wouldn't think O'Quinn would need that sort of thing after winning a $600 million case, but it seems he's a man of principle. The principle? Free speech. O'Quinn tried to knock out the suit on constitutional grounds, claiming that the rules violate his right to commercial free speech.

O'Quinn hasn't given up his battle with the Bar. He plans to fight the charges in what's sure to be a down-and-dirty trial examining how legal "bidness" gets done in Texas. Should be interesting.—**Eric Schmuckler**

Young man in a hurry

Dell Computer Corp., based in Austin, Tex., came public last June at $8.50 a share and moved up to $12.50. Little wonder: It earned $9 million last year on revenues of $159 million, a truly impressive showing for an almost brand-new company. That gave it a market capitalization of $240 million—not bad for a company run by a mere 23-year-old.

Michael Dell, the personal computer company's chief executive, started the company in May 1984 while a student at the University of Texas. His 55% of the company makes him easily a centimillionaire at an age when most people are just starting their careers.

John Segal

So far, great. Now comes a sour note. In early December, almost six months to the day after his initial public offering, Dell registered 300,000 shares of his letter stock to be sold on the open market. Nothing wrong with that, except a few weeks after Dell began selling his shares at around $11 per, his company announced major price cuts on some of its computers. The stock fell two points on the news. Subsequently Goldman, Sachs and Robertson, Coleman, the brokerage firms that underwrote Dell's IPO, lowered their earnings estimates for Dell.

A company spokesman says Dell's selling is a nonevent. One thing's sure, his timing's pretty good.

One LBO too many

Greg Heisler

Reginald Lewis of TLC Group
Did his big markup sink McCall's?

McCall's Pattern Co., the leading sewing pattern producer, sank into Chapter 11 in December, another leveraged buyout gone bad. Loaded with $68 million in long-term debt, it had defaulted on a principal and interest payment due the Travelers Insurance Co. Travelers called its loan, forcing McCall's into Chapter 11. "In the last five years, we have had five different owners, and we've acquired a lot of debt," says veteran Chief Financial Officer John Kobiskie.

Where did all that borrowed money go? A lot of it went to Reginald Lewis, the New York City-based dealmaker, and his TLC Group. Lewis sold

McCall's to John Crowther Group Plc., an English textile firm, and Shearson Lehman for $63 million plus the assumption of $24 million in debt. Lewis also got to keep 20% of the equity. That 20% is not worth much now, but Lewis and TLC will scarcely notice that.

The buyers paid a steep price; Lewis reaped an obscene profit. In all, he took out $69 million in cash for shares and warrants that had cost him $4.1 million in the past three years. Clearly, he got a bargain. Equally clearly, the next buyers got a turkey.

Lewis' TLC Group went on to buy Beatrice's international operations for $985 million in August 1987. *Fortune* hailed him as a master dealmaker. The folks who overpaid for McCall's might have a different way of describing Lewis.—**Laura Jereski**

Save the whales, bash the capitalists

Greenpeace, the group known for its save-the-whales and nuclear-test-ban campaigns, has a new cause: class warfare. The organization's recent bimonthly journal includes a section called "The Economic Facts." Among the randomly selected "facts" is this fiction: The net worth of the U.S.' 400 richest people is greater than our national debt.

Off by more than 90%, fellows. The combined net worth of The Forbes Four Hundred, some $220 billion, is a minnow next to the whale that is our $2.5 trillion national debt.

Oh well, what does the truth matter when your heart is in the right place? On the same page, Greenpeace grieves for Bolivian schoolteachers whose salaries were supposedly frozen to help pay off that Third World country's foreign debt.

Makes a person wonder. Just who are these folks at Greenpeace and what kind of peace is it they have in mind for us?—**Philip Glouchevitch**

Fox in chicken coop

Duff & Phelps, the investment advisory firm, was scooped up late last year by Freeman Spogli & Co., a smallish LBO firm out of Los Angeles. The $145 million deal should close in mid-February.

Though Duff & Phelps does money management and financial consulting, it's best known as a rater of debt, third behind giants Standard & Poor's and Moody's. That business has boomed with the explosion of corporate debt issuance in recent years. Isn't it ironic that a straitlaced credit-rating company should end up in the clutches of the buyout boys?—**E.S.**

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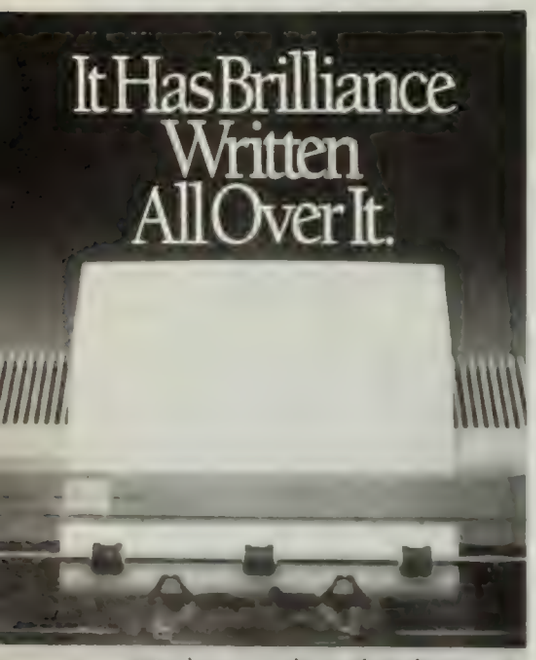

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Readers Say

Read my lips

SIR: Shame on you for suggesting a 50-cent tax on gasoline *(Fact and Comment, Jan. 23)*. Small businesses create most of the new jobs in our country. This tax would affect self-employed truckers, cab companies, salespeople who travel and people who live in rural areas. We need another tax in this country about as much as Mike Tyson needs another interview with Barbara Walters.

—Rock M. Gettys
Cincinnati, Ohio

Crystal ball

SIR: Re "Them that can, do, them that can't, forecast" *(Dec. 26, 1988)*. Indeed, forecasting can be hazardous to an economist's reputation. Not forecasting, however, can be fatal to a company's profit. A forecast should be considered a process rather than a product, requiring frequent monitoring. While a given forecast will generally miss the key turning point, it will provide a useful road map into and out of that point.

—Elliot Schrier
President,
Manalytics, Inc
San Francisco, Calif.

SIR: I believe that economic forecasters are being given a bum rap. When making a weather forecast all you have to do is figure out what Mother Nature is going to do. Nothing is going to change the outcome. But in economic forecasting, each forecast sends out signals that change the conditions upon which the forecast was based, and so the outcome is changed. A good forecaster will send out signals to the economic community that causes them to change their economic policy.

—R.E. Rieck
Meteorologist,
Silver Spring, Md

Insurance casualty

SIR: We were extremely surprised to read ("Who got reformed?" *Jan. 9*) that the insurance industry emerged unscathed after the 1986 tax reform. Nothing could be further from the truth. The Tax Reform Act dramatically changed the way property and casualty insurance companies are taxed by, essentially, allowing deductions for only the discounted value of loss reserves. In addition, a portion of previously tax-exempt investment income is now taxable, and a portion of the unearned premium reserve account is included in income. The full impact on paid taxes was not apparent in 1987 because the industry still had substantial tax-loss carryforwards. It is now estimated that the property and casualty industry will pay $15 billion more in taxes over a four-year period, as compared with the federal government's original estimate of $7 billion over a five-year period.

—Howard I. Smith
Senior Vice President-Comptroller,
American International Group, Inc.
New York, N.Y.

Get back

SIR: Re your review of *The Lives of John Lennon (Fact and Comment, Jan. 23)*. Many of Albert Goldman's sources have stated that this "700-page dissection" contains misquotations and outright fabrications too numerous to list here. It is unfortunate that a self-serving leech like Goldman can fictitiously tarnish the memory of one of rock music's most influential figures.

—Michael O. Staiger
Chicago, Ill.

Accreditation

SIR: Re "Can justice be accredited?" *(On the Docket, Nov. 28, 1988)*. As a Constitutional law professor and one of the do-gooders quoted, I would like to comment on some of your statements concerning a national system of state court accreditation. The hallmark of all American accreditation systems (higher education, prisons, police, hospitals, etc.) is that they are private and voluntary. Thus, should an individual state court choose to undertake accreditation, there is no foisting of rules or standards on them. As a result, throughout the country, police departments and prisons, including the federal prison system, are engaged in accreditation. Similarly, there is no due process issue that could be raised by a party whose case was heard in a state court which had not chosen to become accredited. The Constitution does not guarantee the perfect delivery of justice in the

states, it just guarantees that certain standards of fundamental fairness be met. I know of no constitutional challenges that have been levied against an unaccredited police or prison system by a disappointed participant.
—*Victoria J. Dodd*
Professor of Law,
Suffolk University Law School
Boston, Mass.

Securities scams

SIR: Re "Never, but never, give a sucker an even break" *(Jan. 9)*. This article is the best piece of reporting I have seen in a long time. The writers, Stern, Schifrin and Poole, are to be congratulated for performing a real public service. One wonders why the French system of justice is so much faster than ours.
—*Raymond Nelson*
DuBois, Pa.

SIR: Poo on you. Your three-stoogie reporters have mixed oranges and potatoes in their article. You can bet that Power Securities did not get to the top through shady dealings. We deal in real undervalued companies. Our clients love us because they do make money. I, for one, am very proud to be a Power broker.
—*Helga Daniel*
Clearwater, Fla.

Russian dressing

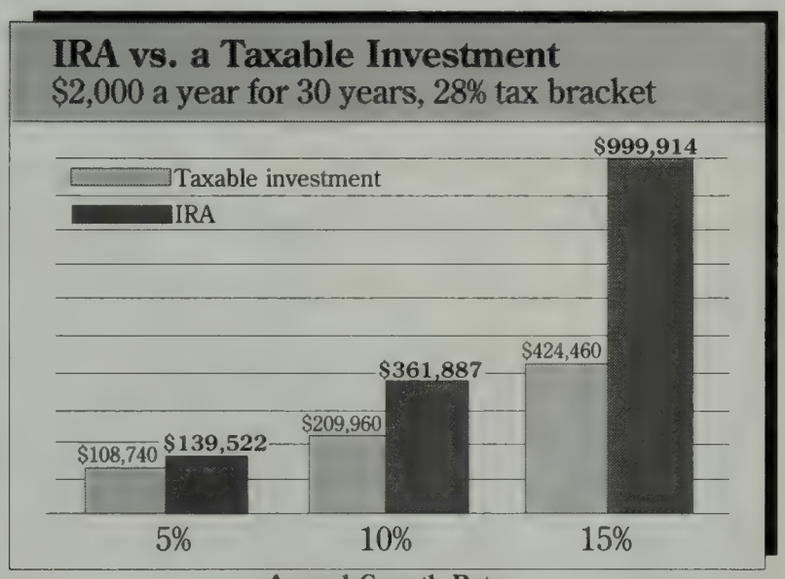
SIR: Re your article on the Soviet Union, "Empire of the will" *(Jan. 9)*. Are we now learning that the Emperor has no clothes?
—*Stuart Miller*
Ho-Ho-Kus, N.J.

Notch babies

SIR: Re your Fact and Comment II *(Aug. 8, 1988)* on Social Security. You did not mention the "notch" babies, those who were born between 1917 and 1921. Although my contributions to the Social Security fund were comparable to those from people born before or after the notch period, I am receiving considerably less because of my birth date.

The issue here is discrimination. The notch babies should be part of Bush's 1989 agenda and on the agenda for Congress, whose past errors should now be corrected.
—*Edward A. Husni*
Cherry Hill, N.J.

Ask us why an IRA is still a very smart tax shelter.



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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

IT'LL BE EASIER FOR BUSH TO BALANCE THE BUDGET

than for Gorbachev to survive his efforts to salvage the economic collapse of Communism.

FOR $100 BILLION, S&L CROOKS AND OVERSEERS SHOULD

be hit as hard as the taxpayers are in the process of being.

Just because prosecuting frauders may be more difficult than nailing robbers caught heisting a bank, it would be preposterous not to go after them full tilt.

Ditto the "regulators" who detected no evils, blew no audible whistles.

While we're shutting the barn door, let's not forget to track down those malefactors who opened it.

A "PHARMACEUTICAL" PLANT CIRCLED BY ANTIAIRCRAFT WEAPONS?

Qaddafi's panic that we might take out his spanking-new chemical warfare plant is further evidence—along with its antiaircraft landscaping—of the undertaking's purpose.

And the German firms who built it and supplied the productive technology hadn't a clue as to what its chemical warfare purpose is?

GOING TO THE MAT WITH EUROPE OVER HORMONED BEEF

is the reverse of smart. In the decade—decades—immediately ahead it will take keen intelligence, perceptive comprehension and wise vision to negotiate successfully the innumerable, potentially explosive differences that we face with Europe's Common Market, as well as with Japan and other dynamic Far Eastern countries.

Europeans don't *want* hormones in their beef. They see it as a health issue, not a trade issue—not unlike the way we see the hoof side of Argentine beef.

To ignite so early what could become major tit-for-tat economic warfare over something so relatively minor and fairly debatable is dumb.

ALAN, BEFORE YOU SINK THE SHIP. . .

Right here just four weeks ago, MSF Jr. in Fact and Comment II wrote something that sorely needs repeating. And repeating. Until "they" get the message:

"The Fed still believes that prosperity causes inflation. . . . That's why the central bank looked with horror at last year's unexpectedly strong expansion and jacked up interest rates.

"What a misbegotten response. Higher interest rates increase the deficit because of the extra charges Uncle Sam pays to service the national debt. If rates went down to where they were in 1986, Washington would save more than $25 billion in interest expenses. Interest is also a cost of doing business. So in the name of fighting inflation and the deficit, Alan Greenspan increases both."

MEGAMERGERS' UMBILICAL CORD IS THE TAX ON CAPITAL GAINS

Remember during the late, unlamented presidential campaign when so many jumped all over George Bush for endorsing a reduction of taxes on capital gains as a key way to insure our economic health?

Almost all the same people who pilloried him then for that are now demanding that the government do something about megamergers.

They seem to have megadifficulty putting two and two together.

Boosting the maximum capital gains levy in 1987-88 from

20% to 33% has hurt equity values. This high rate puts an unhealthy emphasis on immediate income. What's the incentive for looking to the long term, especially when long-term capital gains are *not* indexed for inflation? An investor may be liable for taxes on what are in reality phony gains.

Another key fact that the Administration should address is that interest paid on borrowed money—debt—is tax deductible. Dividends paid on money put up to capitalize companies, i.e., stocks, are taxed twice: first, when the corporation earns the money (the tax on profits) and again, by stockholders when dividends (i.e., "interest") are received as compensation for putting up their cash to make the business possible.

In other words, if you invest your own money, you're hit with a double tax whammy. If you borrow money instead of investing what you have saved, you get a tax deduction.

Do you wonder why the equity base of corporate America shrinks and the debt burden rises?

George Bush was absolutely right when he promised to take a whack at the capital gains tax. That, combined with some relief of the double taxation of dividends, would be the most effective way possible to deal with the great and growing mammoth-merger scenario.

TRYING TO PICK WINNERS AMONG NEW PUBLICATIONS

is a stimulating challenge and we've had good fun as well as a pretty good batting average.

Soon after their birth—rebirth in the case of *Vanity Fair*—we predicted *USA Today*, *Vanity Fair* and *M* would be winners. A lively, brilliant Tina Brown has made *Vanity Fair* the fastest on its In track. For impact on press and readers, our only broad-aimed national daily, *USA Today*, is unmatched.

Among the new, four look like winners—if their backers have purses deep enough to let them get their second wind. Which certainly should be the case for *Condé Nast's Traveler*, with its audaciously candid telling-it-like-it-is content. Brochuria features are not where it's at for canny Harold Evans. Diamandis Communications' *Memories* was heralded here last March. It needs more frequency to nail its franchise.

7 Days is suavely doing for New York's moneyed Upper East Side what the *Village Voice* so embracingly, tellingly does for the Big Apple's downtown intelligentsia.

If *Fame* can continue the brightly burning flames of its first two issues, the sleek and slicks of the establishment fashion-and-wit world will have to hoist their skirts and run harder to stay in place.

Speaking of new magazines, when is some Biggie going to launch a U.S. equivalent of France's *Paris Match* or Spain's *Hola!* or Germany's *Bunte* or *Stern*? It'd be a smashing success if it did unto the U.S.A. what those do unto their lands and the rest of the world. Our erudite *Life* is a wholly different publication.

ANOTHER ADVANTAGE OF NOT GOING AWAY DURING THE HOLIDAYS

is that you can catch up on all the new movies as well as the family.

● **Dangerous Liaisons**—This is a savagely witty drama of sex among the high-blown decadents on the eve of the French Revolution. Their lives, consumed in the boudoir, make for a more intriguing film than you might imagine. ● **Dead Ringers**—Ugh. ● **Pelle the Conqueror**—Starkly gripping. An old Swedish laborer, widowed, immigrates with his young son to a Danish coastal village hoping to find a future for the boy. The tale is grim, despairing, with only a ray of hope at the end. The photography is extraordinary—like old-master paintings, with figures that come alive. See it and be deeply moved. ● **Rain Man**—A fragile, different love story that could have been smashed to smithereens by actors who were less than superb or dialog less than inspired or by a few slips in sensitivity by the director. Instead, it's a masterpiece. Dustin Hoffman, Tom Cruise and Barry Levinson deserve kudos galore. ● **Salaam Bombay!**—Herewith some extracts from Jami Bernard's superbly discerning review in the *New York Post*, which made me go. I urge you to go, too. "Bombay is a modern-day Hades teeming with poverty and decay and despair and other children just like Krishna, cogs in a perpetual-motion machine of misery. Shafiq Syed is the boy who plays Krishna, and there is not a false note played over his sweet, alert face. [Director-writer] Nair captures more than Bombay's hopelessness. The children, though endlessly seduced and abandoned, are resourceful, energetic and funny, often reveling in their own community and freedom. *Salaam Bombay!* is a stunning achieve-

ment." ● **Spike of Bensonhurst**—As deliciously Italian flavorful as *Moonstruck;* but instead of heroine Cher, it's a pugilist lady-killer who defies the Mafia-esque mores and power of his neighborhood. He finds succor in a Puerto Rican bailiwick. I'll guarantee you won't sleep through this oft-hilarious film. ● **Women on the Verge of a Nervous Breakdown**—A very funny contemporary Spanish comedy in the genre of Clare Boothe Luce's *The Women.* The subtitles don't always capture the repartee nuances. ● **Working Girl**—A sexy delight studded with sassy sallies. If you are or have been or expect to be an office-working woman or man, you'll thoroughly enjoy.

FORTUNE OFFERS STEVE FORBES $2,000,000 TO RENEW

Things must really be tough for our friends over there at *Fortune.* Imagine having to offer $2,000,000 and 60% off the price to get son Steve (MSF Jr.) to renew his subscription! And if his number doesn't come up for the $2 million, he "may be the winner of any of 5,033 prizes in the double your million sweepstakes!

"You may win a Multi-Millionaire's Dream Car—the classic Jaguar XJ6 luxury sedan . . . or you could take $50,000.00 in one lump sum.

"You may win a Millionaire's All-Expense-Paid Vacation for two to Hawaii with $15,000.00 spending money . . . a $15,000.00 shopping spree in Rome, Paris, and London . . . or you could choose $25,000.00 in cash instead.

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"To be eligible for the Million Dollar Early Bird prize, your entry must be received by the Early Bird Deadline on the attached Entry Certificate.

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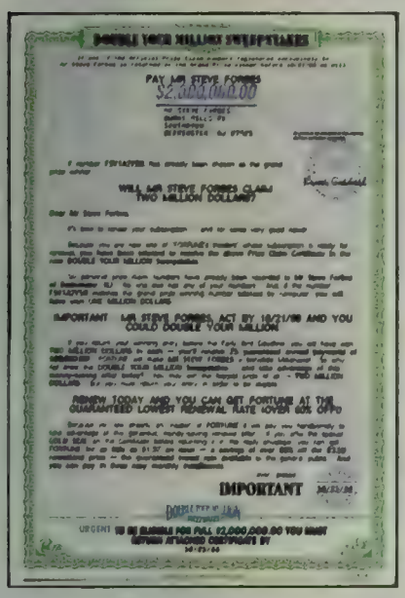


A COMPANY'S REPUTATION CAN'T be built over a barrel.

"BEHIND EVERY SUCCESSFUL MAN is a surprised wife."

BOOKS

● **Ms. Faux Pas: A Non Guide to Glitterati Manners**—by Joan Kron (Parvenu Press, $19.89). The beautifully brainy, ever-smart-in-every-sense Judy Price created the chic-ly successful magazine *Avenue.* She was helped by these deliciously witful writings of Joan Kron. Joan's legalistic disclaimer that "the characters in this book are fictitious, the product of the author's imagination" is as humorous as the rest of the book describing "Donald Trumpet, the self-effacing builder; Bubbly Waters and Dan Rathernot, the famous anchorpersons; Liz Smithereens, the gossip queen; film star Liz Customtailor and her motorcycle buddy Malcolm Fourbits."

Excerpt: *Ms. Faux Pas greeted a tuxedoed Metro Club bartender with kisses on both cheeks, mistaking him for a glitterato. Ms. Faux Pas wonders if other people are having as much trouble as she is lately in distinguishing the guests at parties from the well-dressed help, who are probably just Metro Club members working off their arrears.*

● **The Landmarks of New York**—by Barbaralee Diamonstein (Harry N. Abrams, Inc., $45). This book's layout does little justice to its perceptively intelligent author and the immense work she put into this extraordinarily comprehensive compilation of the Big Apple's designated landmark buildings. The photographs are too often banal, the type is an eyestrain, the presentation monotonous. Publisher Harry N. Abrams, Inc. should be ashamed of what it's done to this consequential work.

Bill Rice, the bu
the Lands' End Inte

There wasn't much moving on that shimmering hot summer day not long ago, on a West Texas ranch. Just a skittish lizard, here and there. And a tractor, plowing the fields, driven by a man named Bill Rice.

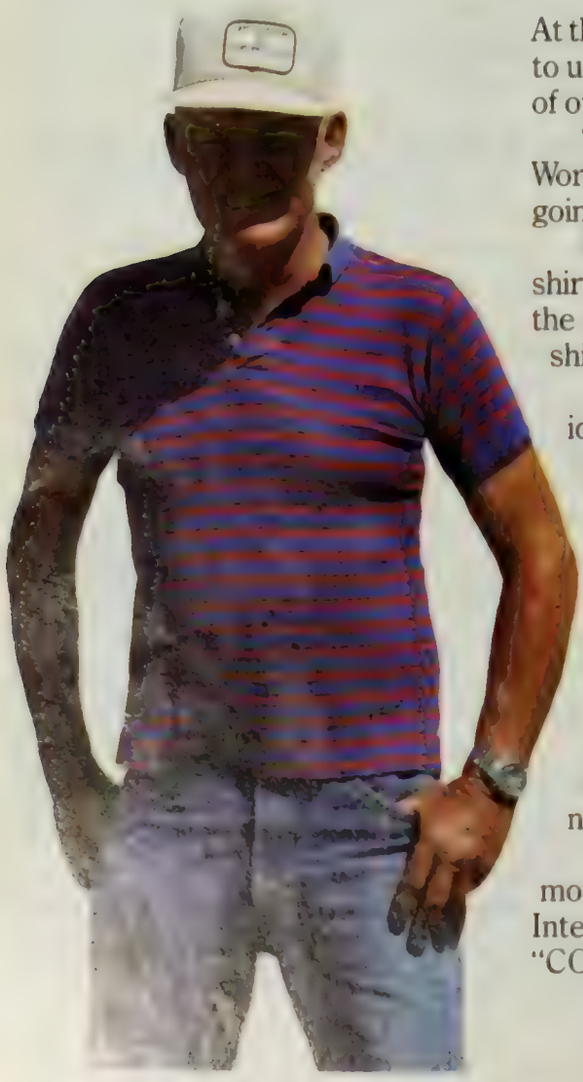
Now, summertime and bugs seem to go together like bacon and eggs. So it wasn't surprising that pretty soon, a bug crawled down into the Lands' End Interlochen Knit Shirt that Bill happened to be wearing that day.

(While we have gotten pretty well acquainted with Bill Rice, we can't tell you anything about this bug, whether it was a brave bug or an ornery bug, a wise old bug or a foolish young bug. It disappeared without giving any interviews.)

Anyway, we'll let Bill tell you what happened at this point, in his own words.

"There wasn't room for me and the bug, so I yanked the shirt off and just hung it on the back of my tractor.

"Well, to make a long story short, the shirt fell down and I accidentally plowed it under. After I plowed it back up and threw it in the washing machine, it was still as good as new. Now that's a well-made shirt."



A shirt good enough to meet the President.

At this point in the story, as Bill talked to us, he began to warm to the topic of our Interlochen Knit Shirts.

"I wear them everywhere I go. Working out here on the ranch, and going into town too."

Bill says it's the comfort of the shirt that's got him sold. Along with the way it looks. (He owns six of the shirts he's pictured in here!)

"If I was going to meet the President," says Bill with a twinkle in his blue eyes, "I'd wear this shirt."

What's so special about our Interlochen Knit?

As its name somewhat prosaically implies, it's knit with an "interlocking" stitch to create a fabric that is especially lofty and plush. Of pure combed cotton, no less, for surpassing softness next to the skin.

In one of our more exuberant moments, we once declared that our Interlochen Knit Shirt is absolutely "COTTON BALL SOFT!"

More unusual than the knit fabric itself is the fact that our Interlochen is even tailored with a soft touch. The collar is taped, the shoulder and armhole seams neatly single-needle stitched, the placket

LANDS' END® DIRECT MERCHANTS

, the plow, and lochen Knit Shirt.

smoothly finished inside—all so no rough edges of fabric ever come between you and the softness of our Interlochen.

Why take such pains with a simple knit shirt? For the same reason we add extra features to our Oxford Shirts, our Corduroy Pants, our Canvas Attaches: Quality is one of the ruling principles of The Lands' End Experience.

And our customers seem to appreciate that. Listen to Bill Rice again: "Out here, we bust our butts to make a living. And when we spend money, we want quality. That's why I buy from Lands' End."

There's more to The Lands' End Experience.

To make sure our kind of Quality is accessible to as many people as possible, we insist that it always be accompanied by Value. As Direct Merchants, we deal directly with our manufacturers, sell directly to our customers, to deliver the utmost for the dollar.

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We ship most orders within 24 hours after we hear from you. Back everything we sell with an emphatic guarantee that reads, simply, GUARANTEED. PERIOD.* And keep our "store" open 24 hours a day, seven days a week.

Why not call one of our operators today, toll-free at 1-800-356-4444, and let them introduce you to The Lands' End Experience? They're famous for their friendliness.

So friendly are they that sometimes, our customers are encouraged to tell them the wildest stories you've ever heard. Like the one, not long ago, about the Texas farmer who plowed under one of our knit shirts.

Now, who'd believe that?

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Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

TV Diner Out

[The new TV series, set in New York grand cafe] *Tattinger's* may wind up being good for the restaurant business in New York. Because when it comes on, the best thing to do is eat out.

—*7 Days*

". . . Is Dead, Long Live . . ."

Drexel Burnham Lambert Inc. still plans this April to host its giant junk-bond conference known as the Predators' Ball—even if star employee Michael Milken isn't there. His possible absence doesn't worry some participants, including C. Robert Kidder, president of Duracell Holdings Corp. "It's a bit like asking: Do you feel differently about AT&T because Alexander Graham Bell is dead?" Mr. Kidder says. "The answer is 'No, not really.' Mike Milken had a great idea, and it has a life beyond him."

—by George Anders,
Wall Street Journal

One Milliken

Although [Michael Milken] has a personal fortune estimated by FORBES magazine at $800 million, he lives, by millionaire standards, a relatively modest, quiet life. "I have one house, one wife, one cat and one car," he told the *Los Angeles Times Magazine* last year. Mr. Milken will not discuss particular allegations against him. Asked how his life has changed, he said: "I'm still allowed to eat like other people. I'm still allowed to sleep like other people. I spend more time with lawyers than the guy walking down the street does. I have a great deal of pressure on me that other people don't."

—by Richard Stevenson,
New York Times

Who You?

I've seldom had so much fun as in reading Charlotte Ford's *Etiquette.* The guide to good manners from one who knows bears this gem, "When you say hello to someone and you see a blank look on his or her face, help that person by introducing yourself and adding a word or two about where the two of you have met. Don't expect people to play guessing games. . . . No one should be expected to remember who you are."

—Liz Smith,
New York *Daily News*

Outside Services

The rate of change in society—and you can pick the computer or whatever you want as a symbol—makes long-term prediction impossible and inflexible building unreasonable. A set of offices today may be an art gallery tomorrow. A perfume factory may switch to making electronics. What we can do—and this is the key to much of my work—is to design buildings that allow for change, so they can extend their useful lives. With the fast pace of developments in technology, any services are bound to be obsolete before the buildings in which they're installed.

Today, if we separate the services from a building's usable space, make the services accessible, and organize the building so it doesn't have to close when the services are being renewed, we can extend the building's life. By putting the services on the outside of a building, we can also increase the proportion of usable space inside—from 48%, in the 1958 Lloyd's, to about 85%, in the new Lloyd's building.

—Richard Rogers,
in a *New Yorker* profile

You don't show your determination to solve a problem by simply increasing spending.

—President Bush, nominating Jack Kemp for Secretary of Housing & Urban Development

Shoe Trees

" 'Shoes! Frivolity! Marie Antoinette!' In the Philippines I built houses for 30,000 slum dwellers. I planted 80 million trees around Manila . . . and they talk only about shoes!"

—Imelda Marcos, responding to critics, *Time*

S&Ls - Incredible!

The origins of the current crisis lie in the poorly conceived deregulation of the early 1980s, which led to an orgy of speculative investments. Both federal and state governments loosened the rules for S&Ls, allowing them to invest in everything from raw land to junk bonds. But they did not insist on a quid pro quo. Savings institutions were not asked to put up more of their own capital as a buffer against the new risks. Nor did Washington beef up supervision. In fact, when S&Ls began to suffer big real estate losses in the Sunbelt states, Congress actually forbade regulators from closing down the losers without lengthy legal procedures.

—*New York Times* editorial

Know-It-All

A newspaper carried the following classified: "For Sale: Complete set of encyclopedias, an atlas, almanacs. Never used. Teenage son knows everything."

—"Jab's Gab,"
Benton County (Mo.) *Enterprise*

JAK—LONDON EVENING STANDARD

"Personally, I preferred the old style four-channel remote control gadget!"

For what you pay at a Hyatt, Sheraton or Marriott, you could be living The Suite Life.®

Embassy Suites® hotels give you so much more that *Fortune* Magazine has named us #1 in service over all the competition. And when you try us yourself, you'll see why. For the price of a single room at a Sheraton, Marriott or Hyatt, we give you:

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JOHNSON CONTROLS

Creating a better climate for business.

Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

THE NEAR COLLAPSE

last December of the 96-nation conference in Montreal and the beef skirmish with Europe underscore one of the fundamental challenges to the Bush Administration: how to jump-start the movement to lowering global trade barriers.

The steady reduction of such restrictions after WWII was a critical catalyst to the extraordinary growth of the world economy through the early 1970s. Protectionist pressures have been growing ever since. The U.S. must seize the initiative from trade obstructors or see the extraordinary economic promise of the 1990s turn to ashes. There is no standing still.

Nik Kleinberg/Picture Group

Bradley's better idea

The so-called Uruguay Round of trade talks in Montreal nearly splintered over the U.S.-European deadlock on agricultural price supports. Rather than mounting numerous frontal assaults against Europe à la hormoned beef, the new President might borrow an idea from Senator Bill Bradley (D–N.J.), who recently proposed that the U.S. help create a Pacific Coalition, consisting of the U.S., Japan, Canada, Mexico, Indonesia, Australia, Thailand and South Korea.

"Call it the Pac-8," suggests Bradley. "Only a small group of countries is likely to reach substantive agreement on the tough economic issues. Europe will be preoccupied with 1992 internal market reform . . . a consensus proposal from this diverse group of Pacific traders on agricultural trade would galvanize the Uruguay Round. The potential of the Pacific Coalition to reinvigorate the Uruguay Round, stabilize Pacific trade and bridge differences between industrial and developing countries serves critical U.S. economic security interests. It [would] show the rest of the world a path to the next wave of worldwide economic growth."

From such a foundation, an open trade zone of global proportions could be constructed.

HELPFUL, USEFUL ANTIQUE

Is the Electoral College obsolete, a dangerous anachronism? The question comes up every presidential election year. It seems undemocratic that a relative handful of "electors" actually select the President and Vice President, that someone can win the White House even if he hasn't won the most popular votes.

Actually, this unique institution serves several positive purposes.

Because one must corral an absolute majority in the College, candidates with narrow appeal cannot make it to the Oval Office. Presidential contenders are forced to put together nationwide coalitions. Ours is a heterogeneous nation with peoples of numerous races, religions and national backgrounds. Under a different system, the American political scene could easily fracture.

Along the same lines, the College discourages third parties, undergirding our two-party system.

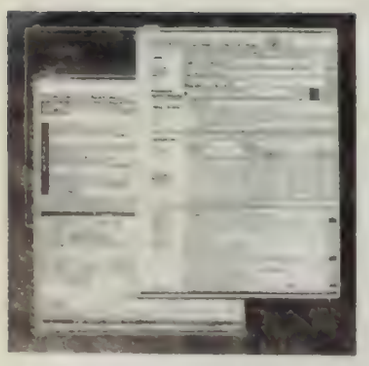
The Electoral College also avoids uncertainty when the popular vote is extremely close, as happened in the 1960 and 1968 presidential contests.

Critics paint nightmare scenarios of what might go wrong. One is the potential chaos should no one win an Electoral College majority, which could theoretically come about with the occasional strong third-party candidate. The House of Representatives would then pick the President. The possibility of such a scenario is remote—it hasn't happened since 1824, when the suffrage was far narrower than it is today.

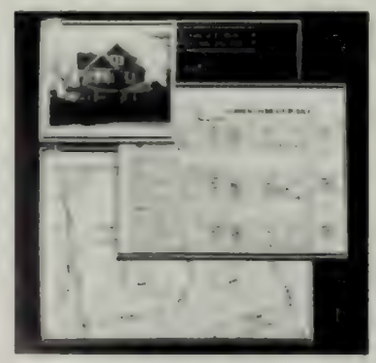
Another nightmare: A candidate wins the popular vote but loses the electoral vote, something which took place in 1876 and in 1888. But those two elections were freaks: 1876 was won by the losing GOP only by an extraordinary, dirty deal with southern Democrats; the popular vote count in 1888 was marred because hundreds of thousands of ballots cast by blacks for the Republican ticket in the South were systematically tossed out, costing the GOP a popular majority.

We should leave well enough alone. This system works.

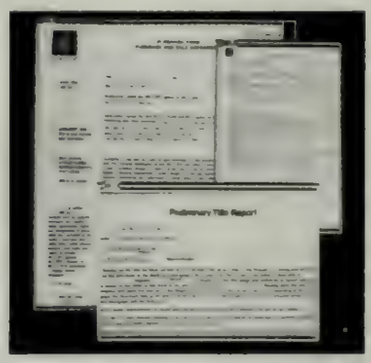
CAN A BETTER IMAGE IMPROVE CUSTOMER SERVICE? BANK ON IT.



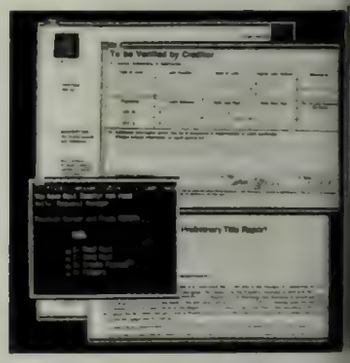
Customer comes in for a mortgage. Has completed application, tax returns.



Bank appraiser mails in photos of property, plot plan and comparables.



Broker provides offer to purchase, preliminary title report, and P & S agreement by FAX.



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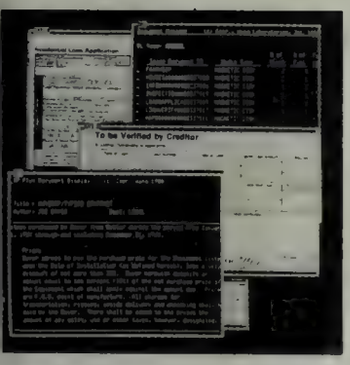

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Commentary
on Events at Home and Abroad
By Caspar W. Weinberger, Publisher

WE MUST NOT GIVE UP STRATEGIC DEFENSE

President Bush is getting a lot of advice these days. The conventional wisdom for military strategy, fortunately, has been out of fashion for eight years under a President who believed you should not just accept the advice of the "experts" automatically. So now the old exponents of conventional wisdom are trying harder than ever to get the President to adopt their old strategic ways.

The old ways include a fear of any defense against Soviet missiles unless it is an ineffective defense, such as ground-based antiballistic missile systems. Those are acceptable because the ABM Treaty, the most sacred of all the "experts' " sacred cows, allows a few.

The old ways support missiles we do not have, such as the one-warhead Midgetman—the most expensive and least cost-effective missile yet proposed. The Midgetman is preferred even though (or perhaps because) we are close to ten years away from deploying it.

Unorthodox Counsel

The Strategic Defense Initiative (SDI) is rejected without even serious debate because it is not permitted by the ABM Treaty; it is too expensive; it will never work, and it will be very dangerous when it does work; and, besides, the Soviets do not want us to work on it and may not sign another treaty unless we give it up.

Let me offer our new President a bit of *unconventional* advice:

Strategic Defense will work; our researchers have done more to secure it for us in five years than anyone thought possible. The first phase of SDI, a very effective phase, will cost little if any more than the as-yet-undeveloped Midgetman. Those who favor Midgetman say it is more survivable. But Midgetman can enhance survivability only for itself, whereas SDI provides added survivability for ICBMS, other nuclear delivery systems, command-and-control mechanisms and, most vital of all, SDI will protect *the American people.* But it is frightening when we know that the Soviets do not accept the ABM theory and have been working frantically for over 13 years to get Strategic Defense for themselves.

If you see the strategic balance primarily in terms of enhancing the survivability of ICBMS, then you will see little advantage to SDI. However, if one views the strategic balance in necessarily broader terms—for example, seeing the need to protect our important national assets and to protect our people—then SDI represents the most hopeful and vital objective we could have.

"Brilliant Pebbles"

So instead of proposing the abandonment of SDI in favor of a strategically insignificant Midgetman, some of the new President's advisers should focus their efforts on securing additional resources for Strategic Defense. To date, the SDI budget has been cut substantially by the Congress, despite dramatic technological progress in every aspect of the program.

One particularly exciting technological innovation is the "Brilliant Pebbles" concept, wherein individual self-sustaining interceptor rockets are put into space, waiting to counter, and thereby discourage, a Soviet first strike. The concept has sparked a great deal of interest on the part of SDI researchers and holds promise of even lower-cost options for defending against nuclear missile attack.

Worst Mistake

But none of this can happen unless we recognize that the ABM Treaty was one of our worst mistakes and unless we use the treaty's own provisions to free ourselves from its ban on effective defenses.

We know that the Soviets violate the treaty regularly. They will deploy a Strategic Defense as soon as they can. We should not deny ourselves our best hope of survival by continued acceptance of a treaty that enshrines a discredited shibboleth.

We hope President Bush will go full steam ahead with SDI. It is the best hope of those who value our freedom.

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Edited by Howard Banks

ATTENTION, MR. GREENSPAN

Trade and capital spending will provide less growth

CONSUMER SPENDING IS SET TO TAKE OVER as the water carrier of continued economic growth in 1989.

The sharp improvement in net exports in 1988 of almost $33 billion (in 1982 dollars) is expected to slow, to a $15 billion to $16 billion improvement in 1989. Reasons: Demand for U.S. goods in Europe is moderating; there's greater competition from Japan's exporters, who have recovered from the stronger yen; and traditional American markets in Latin America and OPEC are weak.

Capital spending, too, will contribute less to growth. Having seen it rise by nearly 11% in real terms in 1988, corporate America has cut spending plans for 1989 to under a 6% real increase, despite tight capacity.

Rising incomes + few fears of inflation = happiness

FORTUNATELY, MOST SIGNALS COMING FROM CONSUMERS are happy ones. Confidence is at its highest since the boom of the late 1960s, according to the Conference Board's December survey.

Jobs are the most important factor in this confidence. Jobs continue to be created fast; unemployment fell to 5.3% in December, a 15-year low.

Rising employment also helped push up disposable income, as did a 4% cost-of-living increase in Social Security pensions this Jan. 1. There was also a one-time lift of $6.5 billion last November through annual profits bonuses for many of the nation's autoworkers.

Consumers, knowing that the effect of the drought on food prices will now reverse and that oil prices are stable, are also much calmer about the recent relatively moderate uptick in inflation than the chairman of the Federal Reserve, Alan Greenspan.

Higher rates could kill hopes of extending growth

THE THREAT OF EVEN HIGHER INTEREST RATES IS THE MAIN CLINKER that could disrupt consumers' continued spending—and hence growth.

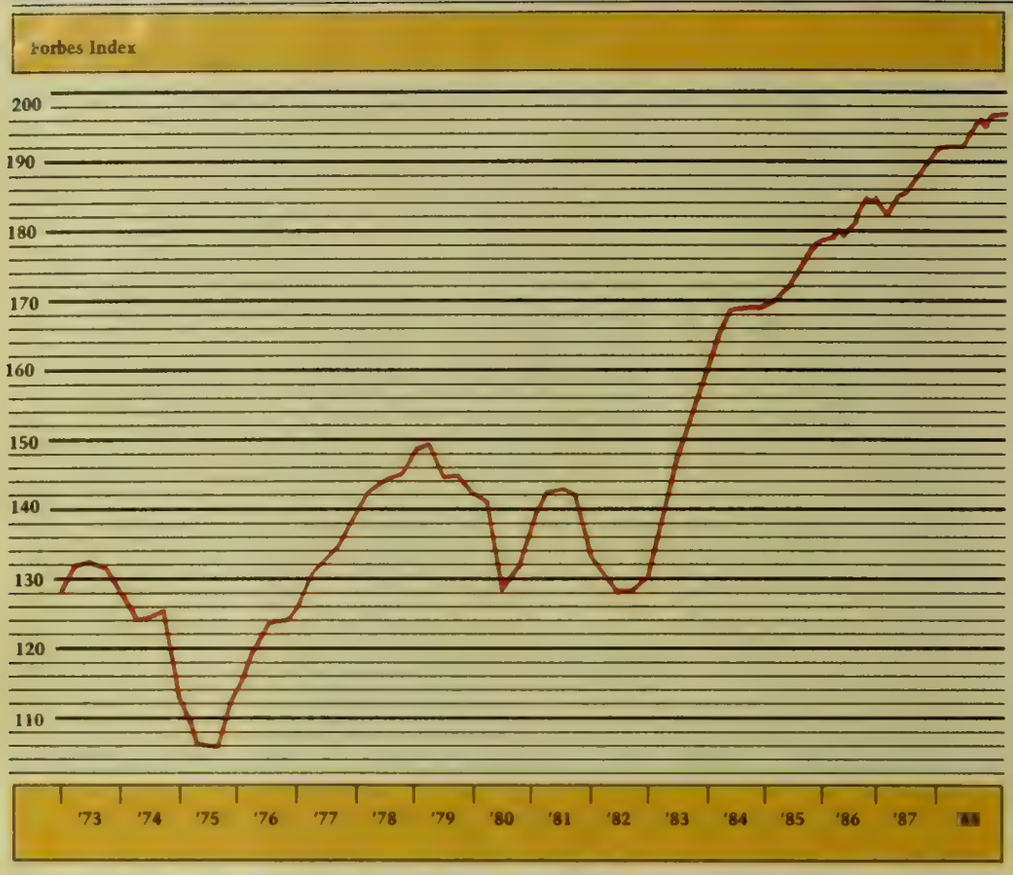
Conditioned by the prime's steady rise (from 8.5% in February to 10.5% in November) and, perhaps, by Mr. Greenspan's well-publicized caution, a remarkable 79% of consumers expect higher rates still, according to the Conference Board survey.

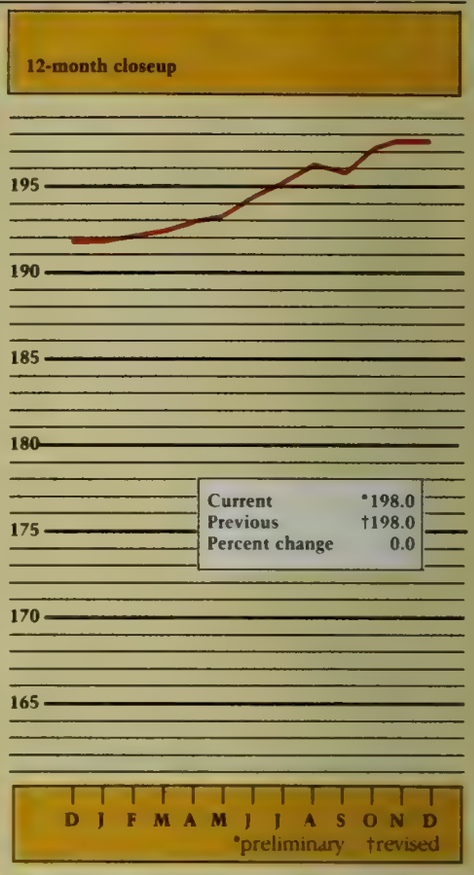
Mortgage lending on new houses is already suffering. And creation of home equity loans, now held by nearly 6% of better-off families, faltered in December, says Joseph Grabowksi of Carteret Consumer Credit and chairman of the Consumer Bankers Association's home equity loan committee. It's the first decline on such loans since they were encouraged by tax reform in 1986.

It is "accepted wisdom" that it's only a matter of time before the Fed closes the historically high spread between its discount rate, now 6.5%, and the Fed funds rate, now around 9%.

Yielding to that view would likely lead to further prime rate hikes and threaten the recent modest rally on Wall Street. Worse, it could also kill off 1989's best hope of extending the economic expansion now in its seventh year.

The Forbes Index





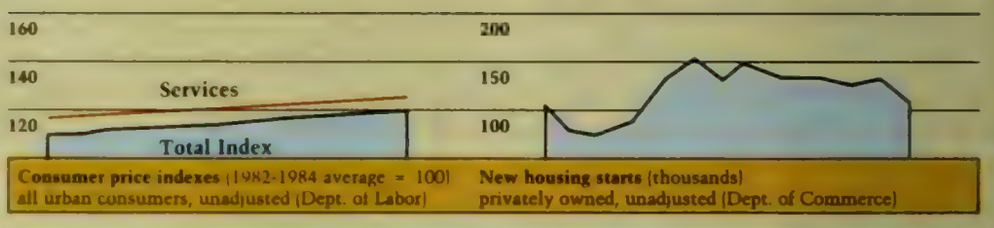
After the Gipper. Ronald Reagan left office with the economy entering a remarkable seventh year of expansion. The Forbes Index is up 54% from its 1982 low. But, as our Index shows, there have been breaks in the rise.

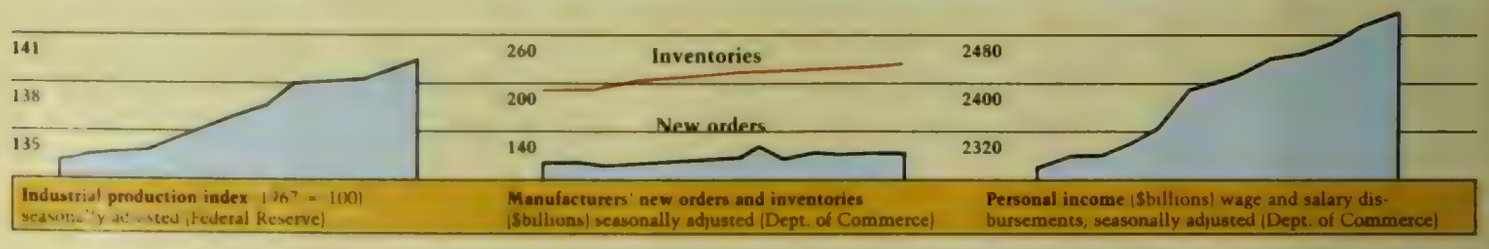
It's impossible to say that another break is in the making, but the newest data are surely mixed. Manufacturers' new orders declined a hair, less than 0.1%, in November after posting a 2.9% gain in October (revised). Inventories rose 0.7% in November, in line with recent monthly gains. New unemployment claims in December jumped 5.8%, to 311,300, the highest total since last July. And the revised third-quarter gross national product indicates the economy grew at a 2.5% annual rate, the slowest rate since the fourth quarter of 1986.

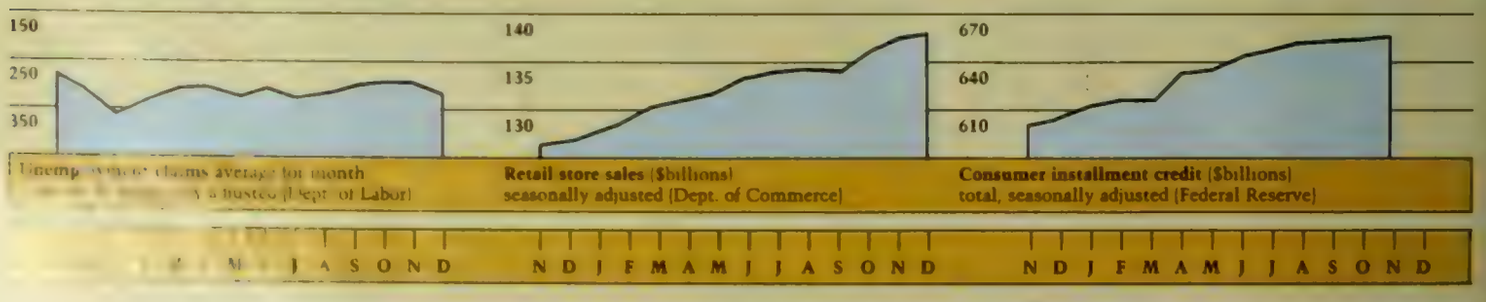
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.







He ran a 4.4 40, a 9.5 100 and a 50 sec. 440.

Unfortunately, he made a 1.0 in high school.

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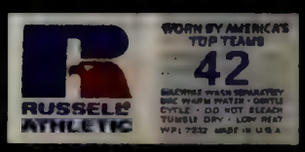

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The New Generation of OLDSMOBILE

There's more to these trade squabbles than hormones in beef. Protectionism is making a comeback throughout a world that seems to be grouping into three main trading blocs.

Sons of Smoot-Hawley

By Edwin A. Finn Jr.

UNLESS SOMETHING can be done to stop it, international trade will soon have degenerated from relatively free exchange to a system of three separate trading blocs. This is not just a threat. It is an emerging reality.

During the past two years, the broad outlines of these blocs have started to emerge. Call them the United States of North America, the United States of Europe and the United States of Asia. Statistics show that trade inside these blocs is growing at a rapid pace, while trade among these blocs is either declining or growing far more moderately. This reverses decades of booming and beneficial trade among the continents.

The trend is most pronounced in Europe, where regional integration is most advanced. Inside the European Economic Community, trade jumped nearly 15% since 1985, while EEC trade with nonmember countries actually fell by an estimated 10%.

Last year the trend surfaced in North America, with trade among the U.S., Canada and Mexico growing almost 20% in the first nine months, compared with a 5% increase in North America's trade with Europe *(see chart, p. 39)*. These trade patterns are expected to intensify as the Canada-U.S. Free Trade Agreement and the [illegible] an community's 1992 unification [illegible] lans take full effect.

Japan, meanwhile, has virtually recolonized Asia, building factories throughout the region. Little wonder Japan's trade with its Asian neighbors jumped an estimated 30% last year. Overall, trade within a nine-nation Asian bloc defined by FORBES grew at a 32% pace in 1988's first nine months. Asian trade with Europe and with North America in the same period was up substantially, too—10% and 17%, respectively—but not nearly as robustly as intra-Asian trade.

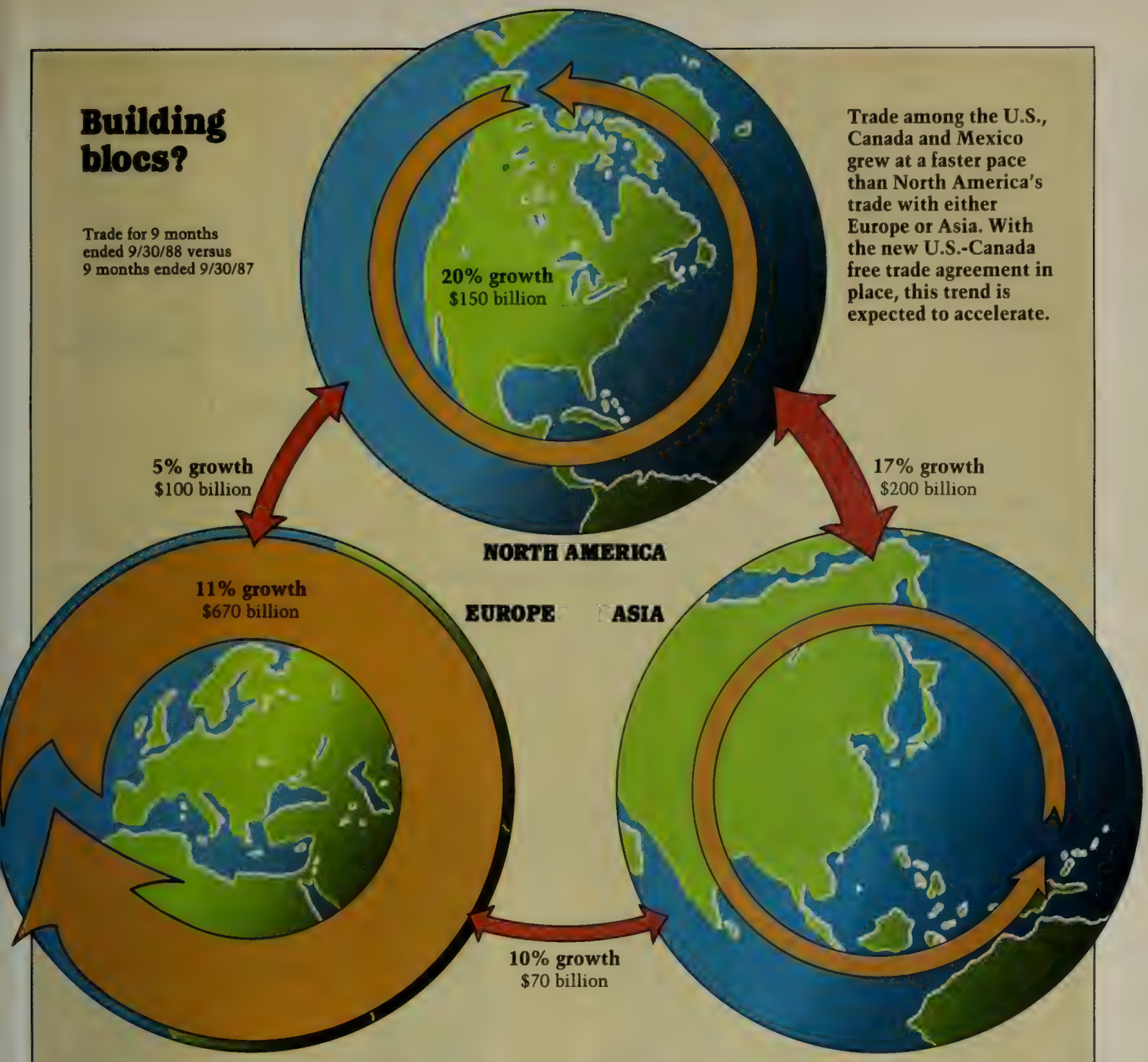
What accounts for the new trade patterns? To a great degree, protectionism, and the U.S. itself is no starry-eyed exception. Despite the Reagan Administration's commitment to free trade, protectionist actions in Washington over the past eight years have pushed the U.S.' share of total imports subject to quota or official restraint from 12% up to 23%. So-called "managed trade agreements" have been enacted to restrict imports of autos, machine tools, carbon steel and semiconductors. On top of that, the U.S. in the past eight years has imposed higher tariffs on motorcycles, specialty steel and shingles and shakes.

Congress is talking about setting up its own trade office to keep an eye on the presidentially appointed U.S. Trade Representative. Such an office would work in much the same way the Congressional Budget Office squares off against the President's Office of Management & Budget. This approach appears to be another example of congressional usurpation of presidential powers, encouraged by seemingly perennial Republican possession of the White House and Democratic control of Congress. But it could encourage protectionism, since Congress tends to represent parochial interests, while the White House tends to represent the interests of the country as a whole.

Even America's academic community—long a standard-bearer for free trade—is beginning to warm to selective forms of protectionism. One group of academics advances the argument that trade advantages in the late 20th century are increasingly determined not so much by a country's natural resource base or the skills of its people as by public policy: taxation, education and business regulation. In other words, government plays the major role in determining whether a country's businesses will be able to compete successfully with their foreign rivals.

The U.S. must fight fire with fire, these academics argue. For the U.S. to compete with Europe and Asia, Washington should help private American companies by funding research in selected sectors such as semiconductors and high-definition television.

If the U.S. is hardly innocent, it is not the worst offender. Protectionism is rampant in some European countries. Italy has adopted regulations that all but ban Japanese cars from the



Andrew Christie

Italian market. France now routinely holds Japanese electronics products at the border indefinitely for small infractions.

Despite the European Economic Community's protestations that the 1992 accord will promote free trade worldwide, the Community's own projections show that trade inside the EEC is expected to grow 10% in the next six to ten years, while the Community's imports from non-EEC countries will grow only 2% to 3%.

Business people are well aware of the trend toward protectionism and are acting in what they see as their own best interests. To ensure their access to foreign markets, they are increasingly setting up plants inside those markets. Thus, Korea's Hyundai Motor Co. has set up a plant in Canada to make its Sonata midsize cars for customers in Canada and the U.S. Foreign textile manufacturers from Hong Kong and elsewhere are setting up shop in the Caribbean, largely because President Reagan's Caribbean Basin Initiative assures these islands preferential access to the U.S. consumer market (FORBES, *July 25, 1988*).

Industry experts say that IBM, worried that Europe's 1992 regulations could exclude it completely from the continent's data processing business, is considering joint ventures with Eu-

ropean firms.

Smaller U.S. companies, fearing a protectionist backlash, are scrambling to get inside Europe well before 1992. Thus, Richardson Electronics, Ltd., a LaFox, Ill. manufacturer (sales, $120 million), recently acquired its first European factory, in Brive, France. Says Edward Richardson, the company's chairman and CEO, "We feel it would be much better to be in place when it all happens than to try to get in after 1992."

Will someone cry halt to the protectionist trend before it escalates into a trade war? It's impossible to say, but if a trade war does erupt, each of the three blocs is in an excellent position to go it alone.

Why? Because each bloc is roughly similar in macroeconomic terms. Each has solid sources of capital and technology. Each has considerable natural resources, though not quite enough to be self-sufficient. Each has regions where an abundant supply of inexpensive labor is readily available—North America in Mexico, Europe in Spain and Portugal, Asia in Indonesia, Thailand and the Philippines.

Europe, cocky over the prospects of 1992, is clearly in the mood to listen to protectionist arguments. The U.S., worried over its relative industrial decline, is, too. Perhaps the most vulnerable bloc is Asia, where the consumer market, at 480 million people, isn't as developed as in either the U.S. or Europe. Many Asians, remembering World War II, fear Japanese hegemony over their region. Also, Asia isn't knit together by a union such as the Canada-U.S. Free Trade Agreement or the European Economic Community.

But Asia's growing trade ties could prove a surprisingly powerful incentive to form some sort of union. Says David Hale of Kemper Financial Services Inc., a leading expert on international trade patterns, "Adding a political structure is just a short step from what the Asian trading market has [already] done."

Even those who support some form of modified protectionism agree that once the trend starts, it is difficult to reverse. Industrial policy could degenerate from the protection of selected industries to a restrictionist orgy benefiting companies and groups for political reasons, not only in the U.S. but everywhere.

After half a century of relative harmony on the trade front, protectionism is clearly making a noticeable comeback. Believers in free trade will make a big mistake if they treat the [illegible] lightly. ■

What happens when a management truly focuses on the long term? It gets dumped on by trigger-happy investors. Sometimes that creates a fine opportunity for smarter investors. Consider Raychem.

"We've heard that all before"

By John Heins

I'VE BEEN in the investment business for a long time," says Philip Fisher, 81, the eminent investment counselor and one of the pioneers of growth-stock investing. "And right now the market is more short-term-oriented than I've ever seen it."

That short-term orientation has just clobbered one of Fisher's favorite companies, Raychem Corp. of Menlo Park, Calif. This $1.1 billion (revenues) company sells sophisticated, proprietary materials and equipment to manufacturers in industries from aerospace to telecommunications (FORBES, *Nov. 2, 1987*). For years the stock sold at a substantial premium over the market price/earnings ratio. But on Jan. 11 Raychem announced that sales in its fiscal second quarter (ended Dec. 31) would be flat, and that earnings would be "significantly lower" than the year before.

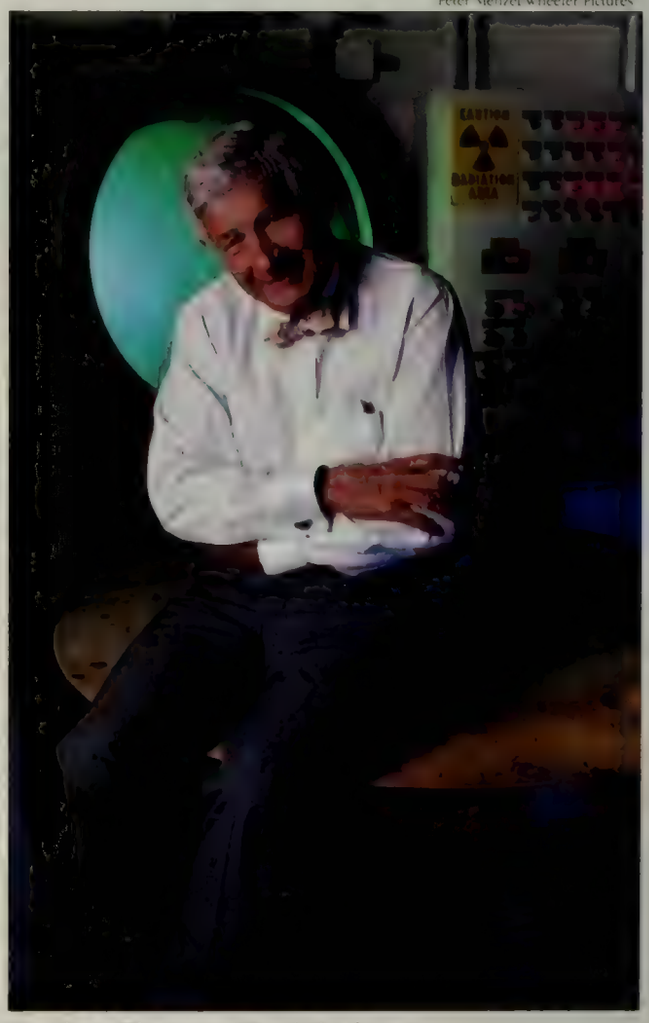
That was all the trigger-happy institutions needed to hear. They dumped the stock. It fell nearly four points, to around 31, wiping out some $135 million, or 11%, of Raychem's market value in one day.

Just six months ago Raychem traded at 54.

Can a company like this really be worth 42% less than it was six months ago? Only if it has demonstrably lost its touch. There is no reason to believe Raychem has lost its touch.

What's happening? Raychem sales and profits are off in cyclical markets such as oil services, chemicals and European defense electronics. Contin-

Peter Menzel/Wheeler Pictures



Raychem Chairman Paul Cook
"Our prospects are more solid than ever."

ued heavy research and development spending in areas yet to show significant revenues, such as fiber optics, has also hurt earnings. Looking further out, however, the prospects seem as bright as ever and Raychem's standing as one of the U.S.' premier growth companies seems safe.

Has Raychem run out of steam? "We've heard that all before," says Paul Cook, 64, the MIT-trained engineer who founded Raychem in 1957 and who is still the company's chief executive. "Technology development is never really predictable, but analysts like to have something that's totally predictable. The patience required to stay with a company like ours doesn't exist in the financial world these days."

Since he founded Raychem 32 years ago Cook has stuck to a straightforward formula for success: Concentrate on niches where Raychem has superior, proprietary technology, and invest heavily in new product development to promote future growth. With a stable of 50,000 products, Raychem has successfully beaten off foreign competitors and enjoys a dominant market share in almost all of the markets worldwide in which it competes. Relying almost exclusively on internal growth, the company has seen its sales grow every year since 1957 and has never had a net loss. Profits ebb and flow but have increased an average of 16% annually.

Cook's genius is in identifying promising technologies with commercial applications and sticking with them until they catch on. One of Raychem's hottest products today is its line of switches made out of conductive polymers, materials that conduct electricity at low temperatures but stop electric current at higher heat levels. It took eight years of development losses, but these switches are now selling briskly to makers of computers, telephone central-office switches and cameras, and they are solidly profitable. Raychem's fast-selling "shape-memory" alloy, a metal that when chilled can be stretched into whatever shape needed, took even longer—20 years—to make money. It, too, now provides a profitable line with excellent growth prospects.

Raychem's flat sales are attributable, not to business lost to competitors, but to purely cyclical downturns in a few industries. On top of that, Raychem has several promising products—still in the costly development stage—that could be big profit generators in the future.

Raychem's work in the fast-growing area of fiber optics has enormous potential. Fiber optics—in which voice, data and video images are converted into pulses of light and transmitted over hair-thin cables—is expected to transform the way people transmit and receive information in the future (FORBES, *Sept. 19, 1988*). Raychem is developing a patented system that, if it works as planned, will allow telephone companies to reach individual homes with fiber-optic cable for about the same cost as conventional copper wiring. Bell operating companies Ameritech, BellSouth and Nynex will begin testing Raychem's system in field trials later this year, as will Deutsche Bundespost, West Germany's AT&T, next year.

Significant revenues from fiber optics are at least two years off for Raychem, and the total cost to perfect such a system will easily exceed $100 million. But Cook isn't pulling the plug on this or any other important development project. "We've been wrong about how long it will take for some of these new products to fly," Cook says. "But the prospects for our new products are more solid today than they've ever been before."

Cook is making sure Raychem is flexible enough to take advantage of all opportunities. The company has almost no long-term debt. It has a record $161 million in cash, money to deploy in technologies or markets, as required for growth. A companywide cost-cutting effort, started two years ago, continues at full speed.

"Here's an American company doing what everybody loves to laud the Japanese for doing: not sacrificing long-term earnings for short-term gain," says Phil Fisher. "But everybody is screaming at them because their quarterly earnings are down." ■

Faced with declining jeanswear sales, giant VF Corp. decided to go mass with its flagship Lee brand. A classic mistake.

Sacrificial brand

By Gretchen Morgenson

PEOPLE AREN'T BUYING jeans the way they used to; some 400 million pairs were sold at retail last year, down substantially from 1981, when 516 million pairs changed hands. Retailers and industry consultants believe the worst of the decline is over and that consumption may soon turn up.

But the prospective recovery brings scant cheer at VF Corp., the $2.5 billion (sales) apparel manufacturer best known for its Lee and Wrangler jeans, Vanity Fair lingerie and Jantzen swimwear. Still, VF Corp.'s biggest business is jeans, and it is now starting to feel the ill effects of a marketing decision its management made in jeanswear a few years back. Until then the flagship Lee brand had been restricted to department stores and other quality outlets.

Apparently to keep sales rising in a declining market, management decided to make Lee jeans more widely available. It seemed a logical move at the time. According to MRCA Information Services, a Stamford, Conn. retailing consultant, almost 34% of total jeans sold last year were carried at discounters; that's up from 22% five years ago. At the same time, department and specialty store jeans sales have been declining, from 42% five years ago to around 33% today.

So three years ago VF began peddling Lee to lower-brow mass merchandisers such as Target and Venture, retailers that already distributed VF's middling Wrangler and Rustler brands.

It turned out to be a decisive mistake: VF has debased its most basic

VF Corp.'s Robert Gregory and Laurence Pugh Will McIntyre

Make it mass or make it class, but you can't make it both.

coin, price image.

By going lowbrow with Lee, VF gambled on the loyalty of its department-store customers, who, understandably, don't like to see the jeans they're selling at $34 go for $19.95 on sale across the street. Management seemingly ignored lessons from the Lacoste alligator shirt of the Seventies and early Eighties. For several years, the shirts were hot and could be found only in the best department stores. When growth started to cool, Lacostes began turning up in lesser stores. Now, nobody's wearing them.

Lee jeans—which account for more than a quarter of VF Corp.'s revenues—are not about to go the way of the alligator shirt. But neither are they winning over hordes of new customers. One department manager for a midsize specialty store in Kansas put it this way: "People aren't asking for Lee today." Indeed, in the third quarter of last year, traditionally the biggest quarter for jeans sales, Lee revenues declined 20%.

VF says its sales have dropped because it gave customers too many choices instead of narrowing the choices down for them. "There was confusion among retailers and consumers," says Rob Gregory, VF president, "but our line is simpler now. Preliminary indications are good."

Maybe. But interviews with retailers across the country reveal a bigger problem. VF, they say, has alienated both big and small retail customers with its Lee [illegible]on. Take May Department [illegible]s (see p. 49): With close to $12 billion in revenues and stores from coast to coast, it's a major customer for manufacturers. But not VF Corp. When Lee jeans showed up in downscale Venture stores, May Chairman David Farrell reportedly issued a dictum forbidding his some 300 department stores from buying Lee.

Perhaps as a result of the lost prestige, one general merchandise manager for a discounter reports that she's not making the markup on Lee jeans that she is on Gitano.

Nor did the move help VF's profits. VF gets narrower margins on the merchandise it sells through discounters than it gets through department stores. Earnings for 1988 are expected to show declines from 1987, and operating margins are falling, from 21% in 1986 to an estimated 16% in 1988.

Chairman Larry Pugh and Gregory seem to believe they can deliver a quality brand image to the department stores and to discounters, too. Pugh says: "Three to four years ago we did 10% more in department stores, but that comes in cycles. It's more a function of the marketplace." Gregory concurs: "Everyone's department-store business is down. Department stores have backed out of the jeans category somewhat."

That's not what Levi Strauss & Co. says. VF Corp.'s most formidable competitor—both companies lay claim to about a quarter of the total jeans market—says it's doing more jeanswear business in department stores now than it did in the early 1980s.

In fact, Levi's has given VF Corp. some considerable headaches recently, and they're not likely to go away soon. Two years ago Levi's introduced Dockers, a jeans-alternative cotton trouser that's selling extremely well. VF has little in the way of jeans alternatives to sell to retailers. Why not? Pugh allows: "We're looking at it." While he looks, Levi's has turned Dockers into a $125 million business.

Ironically, it may have been Levi Strauss that prompted VF to trade down its Lee label. Seven years ago Levi's agreed to sell its jeans in J.C. Penney and Sears stores. Daniel Chew, marketing manager for Levi's, recalls: "Our traditional accounts were very anxious about the decision, and Macy's dropped our business." But few other major retailers did. Reason: Levi's drew the line at Sears and Penney. The company does not sell to Target or Venture, as Lee now does. Levi's Brittania brand, acquired two years ago, goes to the mass merchants. Thus, Levi's brand name remains untarnished.

In spite of its lagging revenues, VF's stock has held up fairly well: Its recent price of $29.25 is 11 times earnings and more than 3 times tangible book value; its capitalization is a hefty $2 billion. But that may have more to do with VF's old-fashioned, modestly leveraged balance sheet and its considerable excess cash flow than with its business prospects; VF is frequently mentioned as a takeover candidate.

Moral: If you have a quality image, be wary about tinkering with it. *(For more on this subject, see p. 128.)* ■

Wall Street seems to think Pope & Talbot is a lumber company. Peter Pope says he is in the diaper business.

Mistaken identity?

By Marc Beauchamp

As he sits in his modest Portland, Ore. offices, Peter Pope watches the price of lumber turning soft. The price of framing lumber used in home construction, for example, has declined 10% since last summer. This should be bad news for the chairman and 5% shareowner of $500 million (estimated 1988 revenues) Pope & Talbot, Inc. But Pope scarcely turns a hair. Neither, apparently, do two of his biggest outside shareholders—John Templeton's Templeton Gallbraith & Hansberger and Boston-based Fidelity Management—which together own around 12% of P&T's 12 million shares.

Why are these folks so calm? Because Peter Pope, the 53-year-old great-great-grandson of founders Andrew Jackson Pope and Frederic Talbot, has quietly moved the 140-year-old company away from lumber and into some of the more countercyclical ends of his industry. In the past decade he has spent some $160 million to build or buy plants to make pulp, private-label tissue and disposable diapers. The logic: Pulp demand usually peaks late in the business cycle, and private-label tissue and diapers sell best when consumers are pinching pennies in a recession.

Measured by return on equity (20% plus), Pope & Talbot ranks near the top of its industry and well ahead of Georgia-Pacific (18%) and Weyerhaeuser (14%). Pope has realigned his company without piling on debt, which is just 32% of capital, one of the lowest debt ratios in the industry.

Today wood accounts for less than half of the company's revenues. But growth—revenues have more than quadrupled since 1977—is mainly in pulp and paper products, which now account for 57% of revenues. Under President Steven Mason, Pope & Talbot is now the nation's leading supplier of private-label consumer tissue such as toilet paper, facial tissue and paper towels.

Private-label tissue and diapers like those sold by the Kroger, A&P and Ralphs supermarket chains are little different from brand-name products, yet they're as much as 20% cheaper. Grocers like them because they are high-volume items that deliver to them 15% to 20% gross margins, versus 7% to 10% margins on brand-name products. What's good for the grocers is also good for Pope & Talbot.

Not that Pope has forgotten about wood products. In the past decade he's spent $125 million to build and upgrade five mills in Oregon, Washington, British Columbia and South Dakota. Pope has weathered strikes to get union hands to accept lower hourly wages in exchange for profit sharing. And he's gone after the export market, shipping specially cut hemlock to Japan.

If some smart investors have discovered his company, most investors apparently have not. Pope & Talbot recently sold at $18, just 7 times trailing earnings of $2.36. This compares with a ratio of 13 times earnings for Kimberly-Clark, which makes branded paper goods like Kleenex and Huggies. A lot of people on Wall Street apparently think Pope & Talbot will go into the tank as soon as the economy turns downward. Peter Pope emphatically disagrees. ■

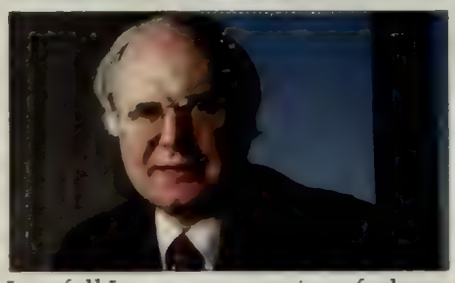
Rich Iwasaki

Pope & Talbot Chairman Peter Pope
Why so calm in the face of a slowing economy?

Business people are not good at defending capitalism. Maybe it is because they don't quite understand it themselves.

THE MIND-CENTERED SYSTEM

By Michael Novak



Last fall I met an executive of a large American multinational, whom I shall call Robert Wilson. He told me with some dismay that his son had come home from university the preceding Christmas denouncing (to his mother) first "obscene profits" and "wicked multinational corporations" (Mrs. Wilson did her best to defend her husband's line of work), and then the entire capitalist system. Still, not having read the exact authors and books her son was citing, she knew she hadn't argued very well. Bob Wilson didn't do much better afterwards—even worse, since he lost his temper.

What *is* this thing called "capitalism," anyway? American dictionaries usually define it in a rather Marxist way. (Not surprising, since it was Marx who first defined what he opposed.) The *American Heritage Dictionary* defines capitalism as:

"An economic system characterized by freedom of the market with increasing concentration of private and corporate ownership of production and distribution means, proportionate to increasing accumulation and reinvestment of profits."

Not all definitions are quite so pejorative ("concentration," "accumulation"). Nonetheless, the emphasis in most does fall on private property, markets and profits.

But these three institutions cannot possibly provide an accurate definition of capitalism. For the word itself was invented to define a *new* economic system, which emerged fully only at the end of the 18th century. Its novelty is what drew attention to it—even Marx'.

What made this new system *different* could not have been private property, markets and profits. Biblical Jerusalem, at a crossroads of three continents, had all three. It was (economically) a market that respected private property and (aspiring to be a "land of milk and honey") smiled on profits.

These three characteristics do not capitalism make. They define the traditional economy in most times, at most places.

What is distinctive about capitalism is hidden in the word itself. What is the answer to Adam Smith's original inquiry into the cause of the wealth of nations? In one word, the cause is *wit*: invention, discovery, mind. (In Latin, *caput*, head.) In this respect, the word capitalism, which Marx intended as pejorative, is accurately chosen.

Simply put, the cause of wealth is human creativity. Smith dramatized this point in his example of the pin factory. Human ingenuity discovered a way to make pins quickly and in large multiples, whereas individual craftsmen had earlier required many laborious hours for each. To paraphrase Hayek, capitalism didn't do much for duchesses, who already had pins, silk stockings and many other items, but it did a lot for working women who had never had them, but soon did.

Capitalism is the first social system organized around mind. It gives primacy to mind—to practical intellect, in the first place, but in the end also to intellectual research and contemplation for their own sakes. Systematic attention to the needs of mind begins in schools oriented to new discoveries and practicality. It continues in patent and copyright laws. It comes to flower through ease of incorporation, through habits of enterprise, favorable conditions for capital formation and access to the credit needed to bring creative ideas to realization.

Thus, a decisive moment in the history of capitalism occurred at the Constitutional Convention in Philadelphia in 1787, when the same right (the copyright) earlier extended to writers in Great Britain was here extended to patents for inventors and discoveries. Article 1, Section 8, of the Constitution listed among the limited powers granted to the Congress the following:

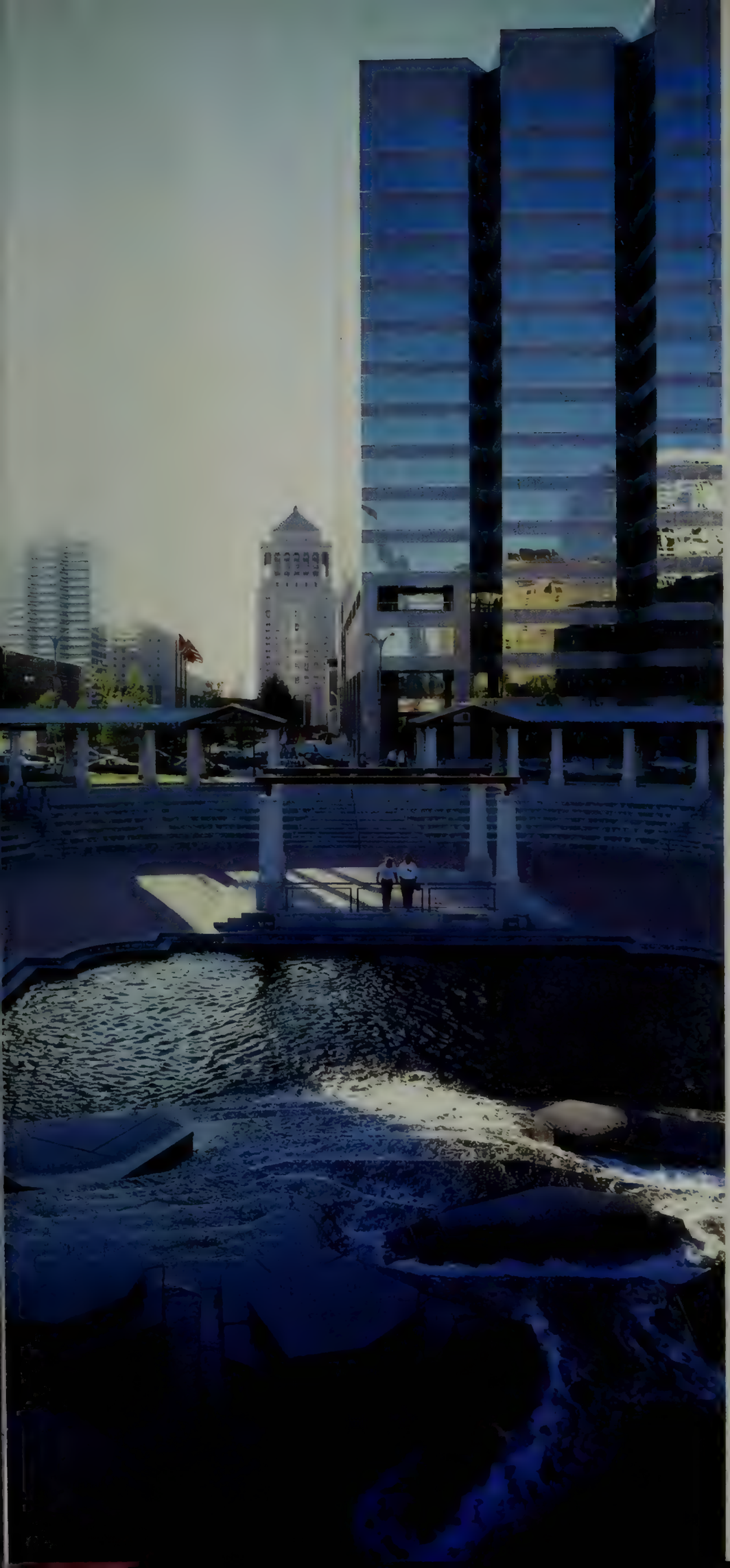
"To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

In this clause occurs for the first and only time in the Constitution proper the word "right"—a right grounded in the capacities of the human spirit for invention and discovery, and justified as a preeminent service to the common good.

In theological language, we can say that a capitalist system is founded on the Jewish and Christian belief that the Creator of all things made every man and every woman in His image. He thus endowed in each the right and the duty to be creative as He is creative: to invent and to discover, and thereby to serve the common good of all.

Capitalism is the system organized around creativity. That is what makes it different from the precapitalist economy, and also from the socialist economy. A system named for the human head *(caput)* is, like the human mind itself, forever open and inventive. If Bob Wilson and other business people want to mount an effective defense of capitalism, they should learn to explain it in these terms. ■

Philosopher, novelist, journalist and ex-U.S. ambassador Michael Novak is now at the American Enterprise Institute in Washington, D.C. Among his most recent books are Taking Religion Seriously *and* Will It Liberate? Questions about Liberation Theology



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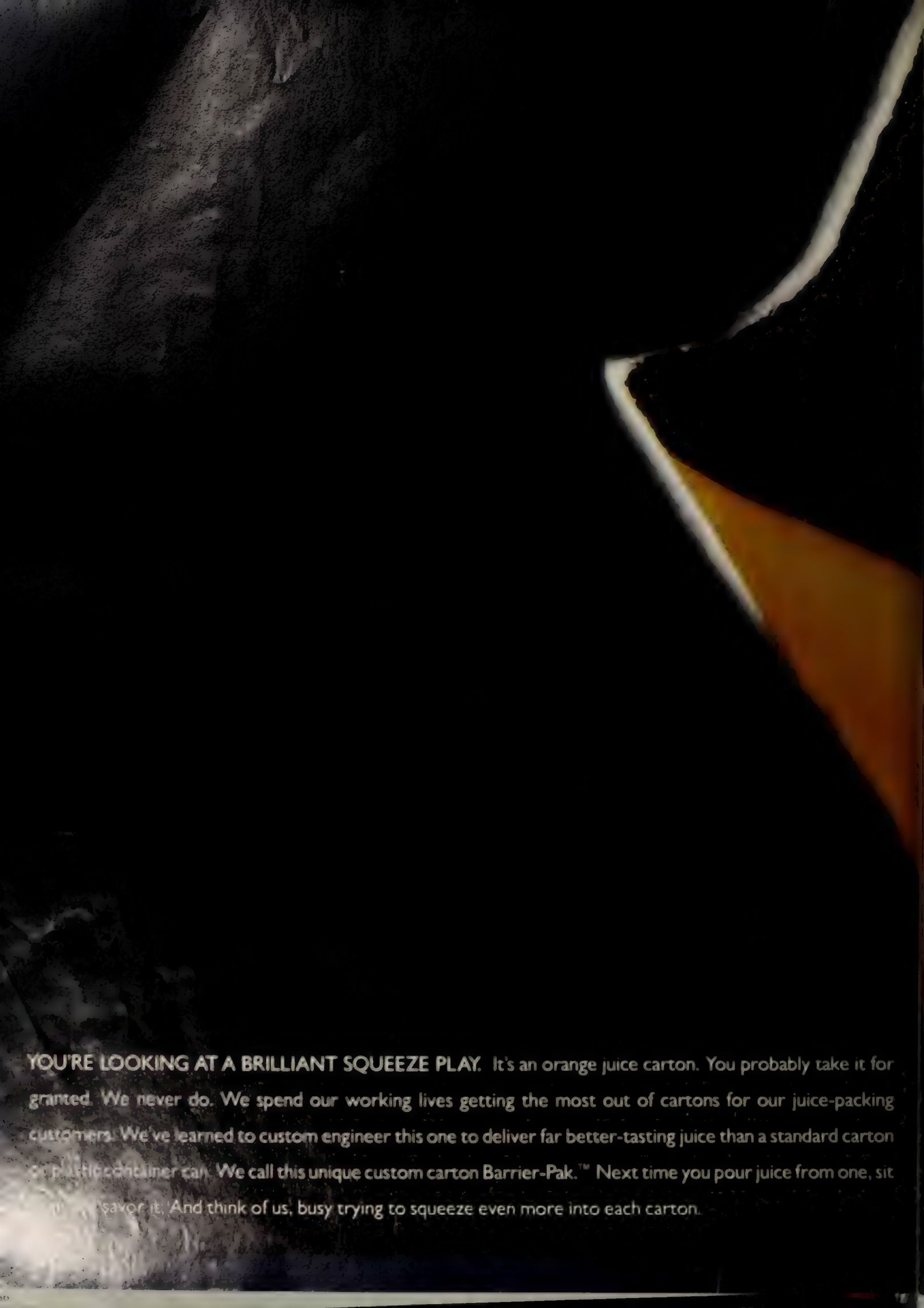
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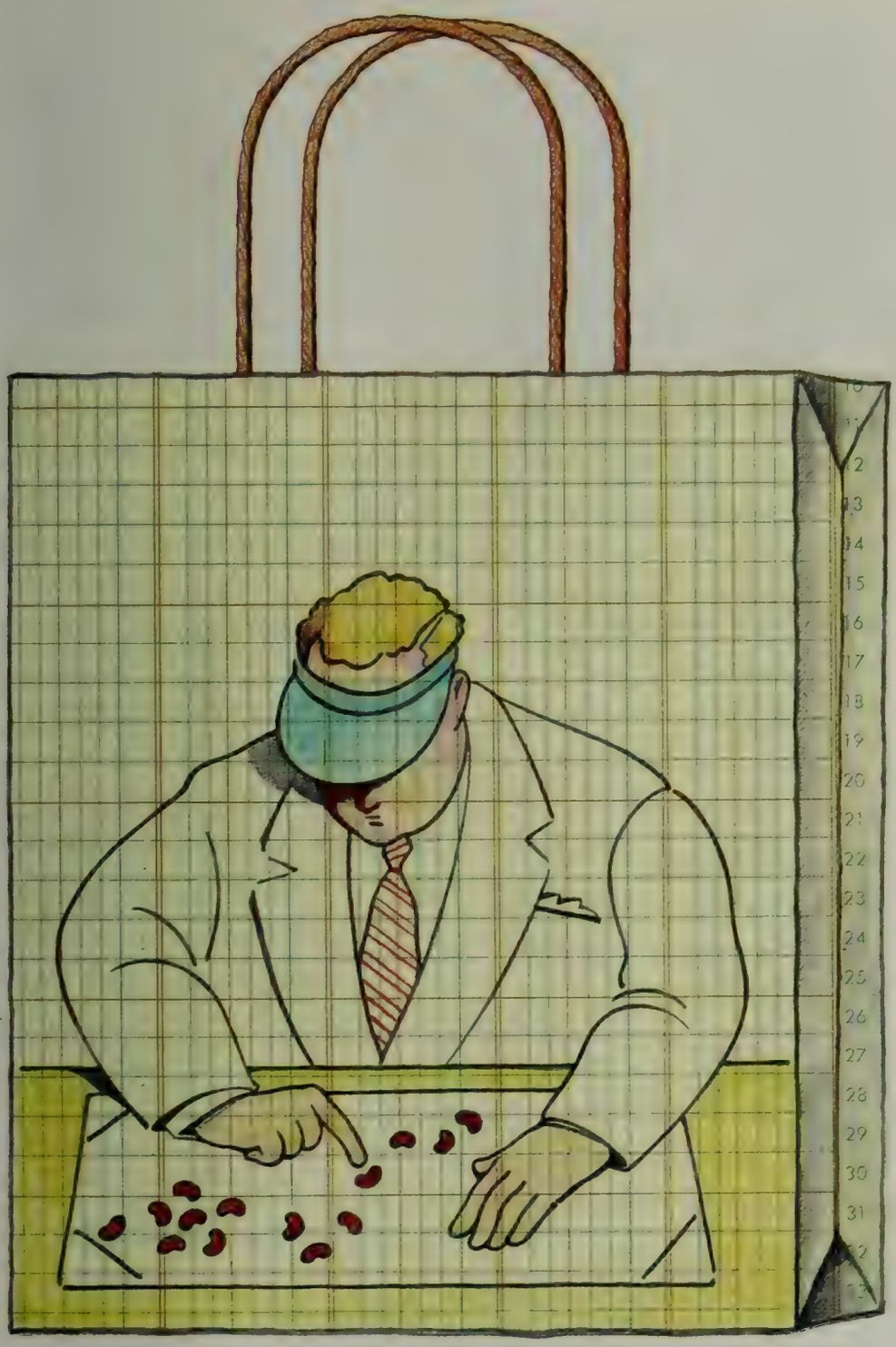
Growing largely through acquisition, giant May Department Stores is more interested in the numbers than in the merchandise. Is this the smart way to run a store?

Milking the cow, hard



Phil Huling

By Charles Siler

DEPARTMENT STORES used to be the grand flagships of retailing—emporiums that provided service in selling the best and also the broadest variety of most everything, with clerks who knew their merchandise and cared about their customers.

But those are a dying breed. It is certainly not the philosophy at fast-growing May Department Stores Co., the St. Louis-based operation that did close to $12 billion in sales last year. May owns such companies as Lord & Taylor; Hecht's, of Washington, D.C.; Famous-Barr, of St. Louis; and 14 other regional chains. In just the last three years, May has absorbed Associated Dry Goods, which brought it, among others, Lord & Taylor and Robinson's, of Los Angeles; Foley's, of Dallas; and Filene's, of Boston.

May approaches each acquisition with an accountant's eye rather than a merchant's. As it has taken over each one, May has quickly moved to cut costs, pruning 800 employees, or 5% of the total, at Foley's, for example. Rather than trying to revive weak stores, it closes them. It has also introduced its own private-label apparel in the newly acquired divisions, achieving new economies of scale but at the cost of eliminating distinctive and regional looks.

May thus shuns the show business approach that made such chains as Macy's and Bloomingdale's so successful over the years. It does not strive to make its stores more distinctive, merely more efficient.

Does this sharp-pencil approach work? Results are mixed. May's revenues will grow by more than 10%, to around $11.8 billion, in the year ending this month, but three-fourths of that growth comes from the acquisition of Foley's and Filene's. Pretax earnings from continuing operations were flat at $350 million for the first nine months of 1988. May's net income is about 4% of sales, placing it in the middle of department store operators, behind Mercantile Stores Inc. and Batus Inc., operator of Saks Fifth Avenue and Marshall Field's.

The future for May's approach isn't very bright, if recent moves by Dayton Hudson Corp.'s department store division are any indicator. Dayton Hudson, the operator of Dayton's in Minneapolis and Hudson's in Detroit, realized several years ago that reduced-cost retailing and a heavy dependence on promotional markdowns were dead ends. Dayton's cut back on price promotions, put more higher-priced and unusual merchandise on

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the shelves, remodeled stores and retrained employees. Dayton Hudson department stores have notched an 8% same-store sales gain in the first 11 months of the current fiscal year, compared with a 5.2% gain for May. Dayton's sales per square foot: $199, compared with $136 for May department stores. At Nordstrom, the epitome of quality and service-oriented retailing, sales reach $349 a foot.

"The markets they [May] are in are saturated and not growing all that fast," says Carl Steidtmann, a vice president of Management Horizons, the Dublin, Ohio-based retail consulting firm.

Take May Co.'s store at Westside Pavilion in Los Angeles. On one recent trip it looked dowdy, with scuffed-up bins, empty sales kiosks and a sea of red-tag specials. Sales clerks responded to questions with blank looks. "I've never heard of Anne Klein II," admitted a puzzled clerk at the women's sportswear department when asked about the popular brand. A few minutes later, an electronics salesman struggled unsuccessfully to explain the difference between a $529 20-inch color television and a $399 model. Finally, he shrugged: "They're both basically the same."

May Co.'s market share in Los Angeles is falling, whereas spiffy, service-oriented retailers of quality, such as Nordstrom, are prospering. In one respected local survey, 21.7% of those questioned said they shop regularly at May, down from 27.7% in 1987. Just 13.9% said they shop regularly at Robinson's, the chain acquired in the Associated Dry Goods deal; a year earlier, 18.2% shopped in that store.

It's much the same in other big markets. In New York, surveys show that a smaller proportion of credit card holders have a Lord & Taylor's charge card than ten years ago. The store's share of suit sales is in decline, while its share of commodity clothing sales is rising slowly—all signs of a deteriorating market position.

David Farrell, chairman and chief executive officer of May, declines to talk about his company's prospects. A firm believer in central controls, Farrell seems far more concerned with precise planning and hitting cost reduction targets than he is with innovative merchandising techniques. But he may be milking the cows hard enough to diminish their ability to give milk. Without meaning to, a clerk in that Los Angeles May Co. store said it all. No, the store didn't carry the Anne Klein II line. Where could the customer find it? "The better stores carry it," she replied. ■

The folks who run Wells Fargo & Co. are not modest, but then they don't have very much to be modest about.

What are you going to do for us tomorrow?

By John Heins

TEN MINUTES into an interview with Paul Hazen, president of Wells Fargo & Co., you know exactly where he stands on the skills of his management team. He sniffs at "dumb" competitors and begins at least a half-dozen sentences with "Not to sound too arrogant, but. . . ." As he says several times, "We have extremely capable management."

If it all does sound a bit arrogant, it is forgivable arrogance. Wells Fargo, the nation's 11th-largest bank holding company, with $45 billion in assets, has been on a roll. You've heard the story: Carl Reichardt, now 57, and Hazen, 47, took over at Wells Fargo in 1983 and have deftly sold off underperforming businesses, slashed costs, made excellent acquisitions and refocused operations on the booming California market.

Earnings at the San Francisco-based company, an estimated $9.20 a share in 1988, have risen an average of 25% a year since 1983. Once a profitability laggard, Wells Fargo now ranks among the industry leaders in return on assets (1.16% as of Sept. 30) and return on equity (24%).

But it will take all the skill Reichardt and Hazen can muster to keep the bank on a roll. You don't make the kind of progress Wells Fargo has made without taking risks. Wells is the second-biggest bank lender in the country (behind Citicorp) to leveraged buyouts, with some $3 billion in loans outstanding. The attraction is obvious: LBO loans tend to yield 3% more in interest and fees than a typical corporate loan. Buyout loans now account for maybe 12% of Wells Fargo's operating income.

The downside is that the bank's buyout portfolio exceeds total common equity by more than 40%, the highest relative exposure to leveraged buyouts among U.S. banks. Wells' average buyout loan is nearly $40 million, three times the size, for example, of the average LBO credit at rival Security Pacific. If a recession hit hard, collapsing many of these leveraged deals, Wells would be considerably exposed.

Wells Fargo's Carl Reichardt
Trying to keep a jump ahead.

Chairman Reichardt says he isn't worried. "We have senior debt, secured by collateral," he says. "The problems will be in the subordinated debt and equity parts of the deals."

If you're worried about real estate values, you can also find plenty to fret about in Wells Fargo's portfolio. At $6.9 billion, commercial real estate loans make up 18% of total loans and 315% of equity. Here, too, Wells' relative exposure ranks second to none, and only giant Citicorp makes more construction loans in absolute terms.

The problem is that 30% of the construction portfolio is outside California, and inside some troubled regions. Problem credits in Arizona and Texas contributed to a 121% rise in nonpaying commercial real estate loans for Wells through September of last year. Nonperforming loans, including foreclosed real estate, now total around 4% of the construction portfolio, up from 3.7% in 1987. If the supercharged California real estate market overheats—as have previously booming markets in New England, for example—the nonperforming ratio could rise fast.

Such risks are, however, endemic to banking, and there is every reason to think Wells Fargo has handled these risks smartly. But Wall Street is worried. Wells' stock is off 15% since October, and now trades around 60.

Assuming there are no unpleasant surprises in the loan portfolio, the chief challenge facing Reichardt and Hazen is how to keep share earnings rising when returns on assets and equity are already at levels that will be almost impossible to increase further. Wells is already one of the nation's most efficiently run banks, with an expense-to-revenue ratio of 56%, compared with around 64% for most competitors. Most of its big cost-cutting efforts—layoffs, office closings and computer systems integration—are over. "Carl will tell you that there is lots of room to still cut costs," says Clyde Ostler, Wells Fargo's chief financial officer. "But there are people here who say there isn't as much room left to cut as he thinks."

The answer, then, to continued large earnings gains is expansion. Reichardt would like another big acquisition. But finding attractive deals is only getting tougher. More and more competitors are also on the prowl, driving prices up. Last year Reichardt was outbid on at least two major buys—California's Union Bancorp and Texas' First RepublicBank. More recently, a team of 70 Wells employees has been pawing through the books of MCorp, the beleaguered Dallas bank with $20 billion in assets.

If they don't get another big acquisition at a price they are willing to pay? Reichardt plans to leverage Wells' expertise as a money manager—it already manages $60 billion in institutional assets—into selling its own mutual funds to bank customers. Wells recently opened a full-service brokerage subsidiary—one of the first at a bank—to push in-house funds.

Meanwhile, Wells Fargo goes right on keeping a jump or two ahead of most competitors. While many of them are still loaded with bad Latin American paper, Reichardt continues to sell off Wells Fargo's Latin American loans and should be essentially out of the business by the end of this year. ■

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For six decades the Thompson family built their 7-Eleven convenience store chain. In a couple of fast, sexy deals, they may have lost it all.

The Texas chain store massacre

By John H. Taylor

When John and Jere Thompson, the chairman and the chief executive of Southland Corp., gaze from their Dallas office windows, a depressing sight greets them. There stands Cityplace Center, their 42-story, $475 million office complex. The new building doesn't have a single tenant other than Southland, which will take only half the space when it begins moving its main offices there next month. Cityplace Center will probably produce operating losses of about $85 million over the next two years.

This is not the only depressing prospect the brothers face. Their $4.9 billion leveraged buyout of Southland is everywhere bleeding cash. Southland owns 7-Eleven, the world's largest chain of convenience stores. The stores coin money, yet the company is struggling to meet debts incurred by an overly ambitious leveraged buyout and ego-swelling real estate ventures.

In the early 1980s the Thompsons began buying huge chunks of land on either side of one of Dallas' major freeways, in a tawdry neighborhood 2 miles north of downtown. The Thompsons' idea, apparently, was to build a vast, mixed-use real estate project, a monument to the company. Its business might be prosaic, but its headquarters would not be.

The Thompsons paid top dollar for the land: between $20 and $30 a square foot for many parcels, more in some cases. In 1983 they unveiled plans to build Cityplace, a $1 billion, 160-acre "city within a city" that would take more than 20 years to

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Danny Turner

Southland's Cityplace Center
A $475 million fiasco.

develop. Within two years, the Dallas real estate market had collapsed. Texas collapsed with it.

With Southland stock trading at about $50 a share, Samuel Belzberg approached the Thompsons in early 1987 and said he wanted to take over Southland at $65 a share. To drive away the predatory Canadian, the Thompson brothers launched their LBO, paying shareholders $77 a share, 20 times 1986 earnings. They put $200 million of equity into the deal and borrowed the other $4.7 billion.

An already expensive deal got worse when the Black Monday market crash destroyed the Thompsons' original plans to sell $1.5 billion in junk bonds to complete the acquisition. Having already tendered for 70% of Southland's shares, the Thompsons were in no position to back out, so they had to pay up—way up. Urged on by their investment bankers, Goldman, Sachs and Salomon Brothers, which were on the hook for a $600 million bridge loan, the Thompsons raised bond yields an average of 400 basis points—to between 15.75% and 18%—and threw in warrants allowing holders to buy up to 10% of Southland's common stock.

There you have it: a nice cash cow business, dragged down by a costly real estate fiasco and much too much debt. Southland expects to earn $624 million (pretax) over the next two years, but FORBES estimates that interest costs and the drag from Cityplace will absorb it all and leave a cash flow deficit of around $32 million in 1989 and $126 million in 1990. Shareholders' equity was a negative $350 million at the end of September.

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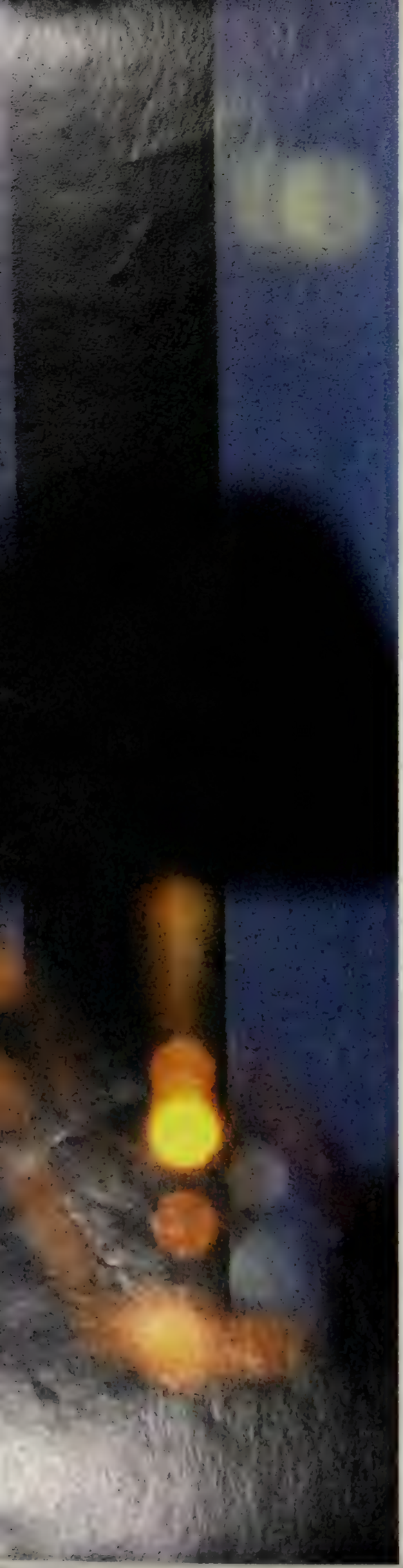

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IBM

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Shelly Katz

Southland CEO Jere Thompson
Running out of things to sell.

In doing the deal, the Thompsons had assumed that they could raise cash by selling the 160 acres at Cityplace—just the land, not the building. They expected to realize $150 million by the end of 1990. Such a deal is simply not on these days. "There are absolutely no buyers for the land," says a Dallas real estate broker who is a friend of the Thompsons.

To conserve cash, the Thompsons have slashed capital expenditures on the 7-Elevens to about one-third of their pre-LBO level; they predict no increase in stores over the next seven years. Thus no spurt in growth to boost cash flow. This is called killing the goose.

To meet its crushing debt load, the Thompsons have been selling everything in sight. Through last November, they raised $744 million by selling assets, including Southland's Chief Auto Parts subsidiary, its dairies and its videocassette rental business, and 910 7-Elevens. What's left to sell? Southland's group of distribution centers is valued between $200 million and $300 million. Its half interest in Citgo Petroleum might fetch between $250 million and $350 million. Another option: sale-leasebacks on some of the 7-Elevens in the U.S. that Southland still owns. A sale-leaseback can raise between $400,000 and $800,000 per store, depending on the age and location of the store.

Anyone who is tempted to build himself an ego monument in real estate could profitably ponder Cityplace Center. Anyone contemplating a leveraged buyout should remember that even the best business in the world is a bad deal if you pay too much for it. ■

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Edited by Laura Saunders

An "obscenely complex" change in the alternative minimum tax threatens to raise a lot of companies' tax bills next year.

Time bomb

THERE'S A TICKING time bomb for many companies in the tax code. It is scheduled to go off on Jan. 1, 1990. "It's horrific," says Shell Oil tax expert Patrick Dreckman. "Obscenely complex," says David Burton, of the U.S. Chamber of Commerce. "This will be an unpleasant surprise for a lot of companies," adds Charles Rau, vice president of taxes at MCI Communications.

The problem is a little-noticed change looming in the corporate alternative minimum tax. If it goes into effect as scheduled next Jan. 1, it could significantly increase taxes for some firms and make paperwork nightmares for many more.

Few companies have paid attention to this issue, but they should. The ones that understand it are clamoring for repeal. But the lobbyists will have a devil of a time explaining just what the problem is, since depreciation was already complicated before 1986, and it got a lot more complicated in the 1986 tax "reform."

Congress put the provision in the law in knee-jerk reaction to protesters brandishing "I pay more taxes than GE" signs. To make sure they would never, ever face them again, the tax writers toughened the corporate alternative minimum tax in many ways.

The minimum tax works this way. The corporation figures its income [illegible] and calculates a 34% tax on that. Then it figures its income the alternative way and calculates a 20% tax on that. It pays the higher of the two taxes.

One of the alternative minimum provisions counts as income half of the difference between profits reported to shareholders ("book" income) and profits that would be reported to the IRS under the regular tax. The idea is to penalize companies that maximize the former and minimize the latter—even though the businesses were minimizing their taxes in ways that had already been approved by Congress. Congress, in short, told them they could save on taxes if they invested in certain things Congress wanted; then it penalizes businesses that do so. A nice mess.

Chas. B. Slackman

Here's how it will get messier. Effective next January, book income goes out of the equation and a brand-new concept, "adjusted current earnings," takes its place. The adjusted current figure, in turn, is a variation on yet another variety of net income, called "earnings and profits."

Let's review the five different meanings of net income:

(1) Book income.

(2) Taxable income, computed the regular way—which differs from book income whenever a company invests in one of those things that Congress wanted it to invest in.

(3) Earnings and profits, a figure used for certain obscure rules having to do with liquidations and dividends. It differs from the above if the company has taken accelerated depreciation.

(4) Adjusted current earnings, a variation on (3).

(5) Alternative minimum income, which starts with (2) and then veers off toward (1) or (4), depending on whether January 1990 has arrived.

An assortment of writeoffs can cause these five figures to differ from one another. Chief among them is the writeoff for depreciation. Now hold your breath. All the while multiplying definitions of income, Congress has been multiplying definitions of depreciation. And when a new "reform" comes out, the old definitions don't die. They survive as long as the old assets. And the various income definitions interact with the various depreciation definitions in messy ways.

Income definition (4) above, for instance, in effect requires firms to compare the remaining tax life of virtually each capital asset with its life remaining under four new depreciation systems, pick the greatest difference, find the present value of it, and disallow 75% of that. The new rule, says Donna Harman, a tax specialist at Dow Chemical, "often hits companies when they are down, say when they are at the bottom of a cycle but still making investments."

Lost depreciation deductions can carry over for use in future years, when a company has higher profits and falls out of the method (5) kind of taxation into a pure method (2). But what if that is several years away, as it could be in cyclical industries? "The time value of money could easily halve the value of the deductions," notes Arthur Andersen tax expert

Byrle Abbin. To say nothing of the time value of the accountants.

In the new method (4), other snares await. One is an "adjustment" for taxpayers who use the last in, first out inventory method. It could make companies with stable LIFO inventories pay tax on the difference between beginning and ending inventories—essentially a tax on inflation. Other traps increase alternative minimum penalties on capitalized interest, intangible drilling costs and even circulation costs.

Who will get hit with higher taxes next year? Hard to say, because the new formula has many moving parts. The only really clear thing is that firms won't be affected unless they are subject to the alternative minimum tax. But beware: The new rules may throw profitable firms that have never before paid alternative minimum tax into that category. Utilities, equipment lessors and other capital-intensive companies—especially small and rapidly growing ones—should be concerned. So should any company that must pay the superfund tax. This includes most firms with alternative minimum taxable income above $2 million. The problem here is not paying extra alternative minimum tax, because none may be due. The problem is that Congress happened to choose the insanely complex alternative minimum tax formula as a base for imposing the superfund tax.

The thought of adding four entirely new depreciation methods to at least four already required on every asset and performing endless present-value calculations is enough to drive most accountants mad. But there's more. Take firms with foreign tax credits, for example. They are supposed to calculate the sources of the foreign tax credit on an item-by-item basis.

"There's no way the manager of a French or German subsidiary is going to do this," says Arthur Andersen's Abbin. "It makes it impossible to know what impact taxes will have on investments without doing every calculation," says David Boor, a tax director at CSX.

Would Congress be willing to ease the law's complexities? There are some hints from the House Ways & Means Committee that the latest layer of complexity is causing an uncharacteristic bout of remorse on Capitol Hill. But a simple repeal, which would lose revenue, is out of the question. So the victims of the "adjusted current earnings" law may get some relief, at the expense of other corporate taxpayers who will get stuck with other crazy tax rules.—**L.S.**

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How sacred is the attorney-client privilege? If the client happens to be a corporation, not as sacred as you might think.

Beware the boomerang

By Deirdre Fanning

SAY A COMPANY'S chief executive hears a rumor that some executives in purchasing are taking kickbacks from suppliers. How can he check out the tip and stop the corruption before a grandstanding prosecutor learns of it and makes a grab for the headlines?

One option that has become popular lately is to hire an outside law firm like New York's Debevoise & Plimpton or Washington's Wilmer, Cutler & Pickering to conduct a confidential probe of the rumors. In the last year such companies as Unisys and Rockwell International have retained outside law firms to conduct self-policing internal corporate probes, and the number of companies is growing.

The idea behind the probes is to give chief executives confidence that they are presiding over a clean operation. If the probe turns up crime or corruption, the company can take corrective action. If the probe turns up nothing, the resulting report goes into the company's files to show due diligence and thereby protect against shareholder lawsuits if a scandal does eventually surface anyway. Whatever they turn up, the reports of such probes are protected from disclosure by attorney-client privilege, and once salted away in the company's files are protected ever after from unwanted public scrutiny.

Or are they? Last September a federal appeals court in Richmond, Va. ordered Martin Marietta to release to the public files full of information gleaned from precisely that sort of internal probe. The order sets an important precedent and warns corporations everywhere that internal audits by inside lawyers can end up planting a time bomb in a company's files.

What happened in the Marietta case? Back in the early Eighties the company launched an internal investigation to sniff out potential irregularities in its billing of costs to the Pentagon. The search ultimately did uncover cost-padding, and in 1987 the company used the results to negotiate itself a settlement with the Justice Department. Subsequently, one of the company's employees was indicted in the case, and he subpoenaed some of the probe's files in hopes of exonerating himself. Marietta refused to turn them over, but then the federal appeals court ruled the company had no choice. Why? The court reasoned that the company had waived its privilege when it disclosed even some of its probe's findings in its negotiations with the government.

Why did the court take such a stand? The answer goes back to 1981 when the Supreme Court extended the right of attorney-client privilege to corporations. In so doing, the Court gave companies the right to keep confidential any communications between themselves and their corporate counsel. Thus, any reports or documents detailing the results of an internal investigation of the company are considered covered by the attorney-client privilege, so long as that investigation was conducted by outside counsel on retainer to the company.

But the whole purpose of a corporate probe is to uncover past or potential wrongdoing, and if that wrongdo-

ing is criminal, it may be necessary for the evidence collected in the probe to be made known to the authorities for proper action. If not, the company could become, in effect, a co-conspirator with the wrongdoer to cover up crime and obstruct justice.

There's the rub. When a company knowingly disseminates information gained from the investigation to any third party—even the government—the courts say they will deem the privilege to have been waived.

"Corporations are using these investigations affirmatively, taking the results to a regulator and saying, 'Look, we didn't do it, here's who did,' " notes lawyer Judah Best, a partner at the Washington, D.C. office of Debevoise & Plimpton. "But [the courts are saying] you can't have it both ways."

And note: The waiver principle doesn't just apply to communications with the government. It also applies when a company or its lawyers release some of the investigation's findings to an auditor or underwriter who, say, needs the information to produce a fairness opinion.

Take the recent case of beleaguered Drexel Burnham Lambert. Some months ago Drexel's lawyers conducted an internal investigation on the legal status of the company, the results of which were then passed on to Drexel's auditors and creditors. When U.S. Attorney Rudolph Giuliani later requested the materials as part of his own investigation of the securities firm, the Drexel lawyers refused to produce them on the grounds that they were attorney-client work product and, so, confidential.

The circumstances of the Drexel internal investigation were slightly different from those of the Martin Marietta case: Drexel's investigation was carried out amid a continuing grand jury probe. Yet the result was the same. Last December a New York federal court ordered Drexel's lawyers to give the material to the U.S. attorney. The court apparently decided that, because the firm's lawyers had disclosed information to one outside party, Drexel had completely waived its right to confidentiality. The ruling is now being appealed.

For chief executives seeking to flush out crooks discreetly in the corporate offices, an internal investigation may be a smart way to take charge. But for companies then seeking to use the information to cut themselves a deal with the prosecutors or perhaps reassure anxious shareholders, the courts' message is clear: You can't have it both ways. ■

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Nearly a half-century ago, General MacArthur ordered Homer Sarasohn to tell Japanese businessmen how things were done. The Japanese listened, but the U.S. forgot.

A lesson learned and a lesson forgotten

By Robert Chapman Wood

WHAT THE JAPANESE learned about management after World War II, they learned from the Americans. And the Americans forgot their own lessons."

There is a lot of truth in that statement. Only a few decades ago, the world, Japan included, looked to the U.S. for management models. Now we look to the Japanese. How did this reversal of roles come about?

A good man to ask is the one who made the above statement, Homer M. Sarasohn. He was among the very first who taught Japanese business people how the Americans did it, and he was in a strategic position to watch the unfolding of the drama of U.S. industrial decline and Japanese industrial rise. Returning to the U.S., Sarasohn built a successful career that included serving as director of engineering communications at IBM headquarters in Armonk, N.Y. Sarasohn believes that his former employer has retained the elements that once made the U.S. the envy of the industrial world. But our industry as a whole has lost it, he sadly fears.

Living in retirement at age 72, in Scottsdale, Ariz., Sarasohn recently gave FORBES his views on how it happened that the Japanese learned from us while we forgot our own lessons.

In a long interview, he not only told us how it happened but gave his views on what we can do to recover what we lost. Here's the story.

In 1946 General Douglas MacArthur was commander of the U.S. Occupation forces in Japan. He urgently wanted Japan to mass-produce radios so that the U.S. Occupation authorities could reach every Japanese village quickly with its messages.

Sarasohn, the son of a midwestern manufacturing representative, had worked as a radio product development engineer at the old Crosley Corp. (long since absorbed into what is now Textron) during World War II. He went on to work on radar as an engineer at MIT and Raytheon after the war, becoming part of an exclusive fraternity of young engineers.

In 1946 Sarasohn received a telegram: "General MacArthur's headquarters has requested your services earliest possible date." Brandishing the now-yellowing telegram, Sarasohn recalls thinking it was a joke. When a call from an irate colonel convinced him it wasn't, he decamped for Tokyo. He was 29 years old.

MacArthur wanted Sarasohn to help the Japanese produce the radios and communications equipment dear to the general's heart. Sarasohn found that while the Japanese knew a fair amount about electronics, they seemed to know nothing of modern management or production techniques. Sarasohn recalls:

"They thought that quality meant making half of your products okay and throwing out the other half. They couldn't understand why they shouldn't make vacuum tubes in a shack with a dirt floor. [Air filled with dust particles produced defects when dust landed on filaments.] I decided that I was going to be a dictator." At age 29 he took a role in much of the electronics industry analogous to the role MacArthur himself took toward Japan as a whole: a dictator who paradoxically demanded "democratic management." In four years, this democrat in dictator's clothing may have accomplished more than any economic dictator in history.

Initially, Sarasohn spent much of his time finding materials the Japanese needed to get radio parts into production. Soon a trickle of miserably unreliable radios was reaching Japan's villages. Sarasohn kept prodding for improved productivity and better management.

In 1948, Sarasohn was joined in the Occupation forces' Civil Communications Section by Charles Protzman, a Western Electric engineer. They concluded the Japanese would never produce quality unless someone taught them modern management, starting with the basics. So in 1949 the pair of young Americans proposed a course for top Japanese managers.

[illegible] a business consultant and [illegible] Weiss.

Graduates of the Civil Communications Section's management course, Osaka, 1950
The Americans* (front row center, left to right): *Homer Sarasohn, Frank Polkinghorn, Charles Protzman.

And here's the rub: Most of the principles Sarasohn and Protzman taught in the course are principles that Americans now think of as Japanese attributes. The Japanese quickly saw the sense of it. They liked the course so well they were still repeating its teachings 25 years later in a standard course for people on the track to top management.

Sarasohn and Protzman's pupils went on to become a Who's Who of Japan's electronics industry. They included Matsushita Electric's Masaharu Matsushita; Mitsubishi Electric's Takeo Kato; Fujitsu's Hanzou Omi; Sumitomo Electric's Bunzaemon Inoue; Akio Morita and Masaru Ibuka, the founders of what is now Sony Corp. This cadre of leaders spread the principles throughout Japanese industry.

Matsushita Electric's Masaharu Matsushita recalls the course clearly: "I believe this seminar was very useful to Japanese manufacturers at that time. Mentioned on the first page of this seminar's text was the title, 'The Objective of the Enterprise,' under which the philosophy of corporate management—the social mission of the enterprise—was clearly explained, and this made a deep impression on the participants of this seminar.

"The theories in the seminar may well be used today," Matsushita adds, "especially the concept about the social mission of an enterprise as the objective of the enterprise."

The Occupation's Economics and Social Section objected to the seminar. "They said we might be too successful," recalls Sarasohn. It was perhaps the understatement of the century. But both the ESS people and the CCS engineers made 20-minute presentations before MacArthur. The ESS warned of the perils of Japanese competition. Sarasohn insisted that it would ultimately be more practical to teach the defeated and starving nation to be self-sufficient. After both sides had finished, says Sarasohn, MacArthur turned to him, snapped, "Go do it," and walked out of the room.

Sarasohn and Protzman were followers of scientific management in the tradition of Frederick W. Taylor. When people today think of Taylor (if they think of him at all), they tend to

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think of dehumanizing time-motion studies, as made famous in Charlie Chaplin's *Modern Times* and in *Cheaper by the Dozen* by Frank Gilbreth Jr. and Ernestine Gilbreth Carey. This does an enormous disservice to Taylor and to the scientific management Sarasohn and Protzman taught. What Taylor principally urged was what came to be known as the systems approach to manufacturing: the idea that every part of a factory or a whole organization should be scientifically analyzed and redesigned to achieve the most efficient output. Managers should look at every aspect of a manufacturing operation as a piece of an integrated system, and should think through the consequences for the entire system of fiddling with any of its parts. Unfortunately, as the power of the human relations movement grew in the 1950s and 1960s, this eminently sensible systems approach to running a business came to be considered insufficiently sensitive to human needs and wants, too mechanical.

In 1946 Sarasohn received a telegram: "General MacArthur's headquarters has requested your services earliest possible date." Brandishing the now-yellowing telegram, Sarasohn says he thought it was a joke. When a call from an irate colonel convinced him it wasn't, he left for Tokyo. He was 29.

But when Sarasohn and Protzman began their course, U.S. management still thought along industrial engineering lines. The M.B.A. was still a rarity. Many managers studied engineering and science in college, then learned management on the job. Literally on the job. Typically, they did not start out as "managers" but did stints in every part of their organization. U.S. managers generally knew what it was like to work a lathe or serve on an assembly line. Business, like the army, was not a democracy, but managers tended to be up-from-the-ranks types, chosen purely on merit rather than on educational qualifications.

Here, as Sarasohn presented it, was the gist of the message he imparted to his Japanese pupils:

- Every company needs a concise, complete statement of the purpose of the company's existence, one that provides a well-defined target for the idealistic efforts of the employees.
- Companies must put quality ahead of profit, pursuing it rigorously with

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Who knows what's next?

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techniques such as as statistical quality control.

• Every employee deserves the same kind of respect fellow managers receive, and good management is "democratic management." Lower-level employees need to be listened to by their bosses.

After MacArthur approved the course, Sarasohn and Protzman quickly wrote a text. (A revised edition entitled *CCS: Industrial Management* is in the Harvard Business School library.) They drew heavily on U.S. management texts, and stressed the basics. For example, they wrote:

"Even though you know these things [management principles], you are not applying them in a logical manner. . . . People at low levels who should be responsible and accountable are confused. . . . Any initiative and interest they [workers] may have in trying to do a job is often destroyed by interference and meddling."

On the first page, a motto used at Newport News Shipbuilding was cited: "We shall build good ships here; at a profit if we can, at a loss if we must, but always good ships."

"It was much to the participants' surprise," recalls Masaharu Matsushita, "to find such a basic policy on corporate philosophy on the first day of the seminar, on the first page of the text. This point made an impression on all the participants. The case study about clarification on the organizational concept for the management division as well as the management theory based on the systematic analysis of business facts and data—all furnished us with much information."

No question: The Japanese took the American message to heart, even as the Americans were forgetting it.

Sarasohn and Protzman wrote: "Every business enterprise should have as its very basic policy something of this nature, [to aim] the entire resources and efforts of the company toward a well-defined target, a target that would benefit society." Today, most Japanese companies have such a statement of basic policy.

Like many of America's best engineers at the time—and like many Japanese managers today—Sarasohn and Protzman saw no conflict between "scientific" management that carefully measured and analyzed everything about a company, and "democratic" management that fully respected employees. They disagreed with "human relations" experts, who were starting to stigmatize practitioners of scientific management on the grounds that scientific management focused on nuts and bolts whereas

managers should care principally about people. Sarasohn and Protzman presented to Japanese business leaders both scientific management and America's tradition of respect for the common man.

The point was not lost on the Japanese: If you have articulated a worthwhile purpose and you constantly strive to create the best manufacturing system—culture, in today's jargon—possible, your human relations problems will tend to take care of themselves.

Sarasohn and Protzman advocated "democratic management" within a traditional, hierarchical organization. That meant that, while the boss was still the boss, he didn't so much bark orders as listen to the people who worked for him. He was the voice of the organization, not its dictator. "A leader's main obligation is to secure the faith and respect of those under him," wrote Protzman and Sarasohn.

Matsushita Electric's Masaharu Matsushita recalls the course clearly. "I believe it was very useful to Japanese manufacturers at that time." It was "the light that illuminated everything," wrote Bunzaemon Inoue, who became technical director of Sumitomo Electric.

How many U.S. managers today believe that, let alone practice it?

The Japanese, humbled by their military defeat and acutely aware of their country's economic plight, were in a learning and listening mood. They repudiated their feudalistic and militaristic ways and promised to lead new lives. The course was "the light that illuminated everything," wrote one executive, Bunzaemon Inoue, who went on to become technical director of Sumitomo Electric.

After the course was offered for the second time (in Osaka in 1950), the Occupation was near its end. But the course did not die. Its old students spread the message, both through their own businesses and through word of mouth. Later on, the CCS course became a standard in the training program associated with the Nikkeiren, the Japan Federation of Employers' Associations.

Before returning home in 1950, Sarasohn established Japan's Electrical Testing Laboratory. He introduced the certification for electronic products that the U.S. government would

On November 24, 1988, IBM announced no new families of processors, software, peripherals or communication devices.

Most IBM employees were at home with their families. It was, after all, Thanksgiving.

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criticize as a "nontariff barrier" 30 years later. While certification in the U.S. focused largely on safety, Japan set continually increasing performance standards for products. By the early 1980s, many American products weren't able to meet its demanding standards.

The man that is most responsible for bringing the Sarasohn-Protzman course to light and spreading its message today is Kenneth Hopper, an industrial consultant associated with Management Advisory Associates in Bowling Green, Ohio. Back in 1948, when Sarasohn was still working in Japan, Hopper went to work for Procter & Gamble in Manchester, England as an industrial engineer.

Matsushita Electric's radio tube operations, Osaka, 1948
The Japanese took the American message to heart.

"U.S. management was evolving in directions that would now be described as 'Japanese,' " Hopper recalls. European companies, like most Japanese companies before World War II, kept people on well-defined tracks. University graduates spent little time in factories. But at Procter & Gamble and many other U.S. companies, engineers like Hopper spent years on the factory floor. Six months after becoming a design engineer, Hopper was appointed as a foreman in maintenance.

U.S. firms were introducing wave after wave of improvements in technology and knowhow. Communication between engineers and ordinary factory workers—evidence of what Sarasohn and Protzman would call "democratic management"—made their successes possible. The practical knowledge of ordinary workers fertilized the expertise of the engineer, and the workers had quick access to engineers' knowledge. It was a revelation to a young man brought up in the class-conscious, ossified English system—as it would be to a young manager brought up in U.S. manufacturing from the mid-1960s to the present.

In the 1960s, Hopper decided on an academic career. But he found that he had quite different ideas from the academics about what made the U.S. system work. The practical people who had built the U.S. corporations communicated poorly with the academic elite. Innovative business scholars showed little respect for how factories were managed, preferring to write about marketing, financial techniques and "human relations."

Hopper got a one-year grant to study at Harvard Business School in 1965-66, but while there he couldn't find a professor to sponsor his Ph.D. dissertation on the use of college graduates as foremen. So he went back to a career as an industrial consultant but refused to give up on communicating

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what he now calls "classic American management." In 1969 Hopper met former Mitsubishi Electric executive Takeo Kato. Kato led him to Frank A. Polkinghorn, who had been Sarasohn and Protzman's immediate boss when they taught the CCS course. Hopper has been collecting details of their achievements ever since.

The real irony, of course, is that Hopper believes that the U.S. excellence of the 1950s and the Japanese excellence of the 1980s have closely related roots. And he has watched the decline of the American management systems that produced "Yankee know-how" with anguish and dismay—in much the same way many serious scholars watch the sickening decline of American educational standards.

Hopper notes that Protzman, who wrote many of the sections of the CCS course that dealt with human relations, had been a foreman at Western Electric's Hawthorne plant in the 1920s. At the time, the famed Hawthorne experiments, which underlay the human relations movement in management and ultimately undermined scientific management, were being conducted. At Hawthorne, scholars looked at how changes in the work environment affected productivity, concluding that productivity would rise if managers concentrated on workers' needs. As Cornell University professor of manufacturing L. Joseph Thomas puts it: "It became fashionable to think that measuring a person's work devalued him. Rather, you should simply trust people to do the right thing." This was the death of the systems, or industrial engineering, approach. And the birth of the human relations approach to management.

Hopper spent a lot of time talking with Protzman. Protzman, who died in 1987, concluded the Hawthorne experiments were meaningless. Protzman felt that good managers didn't need elite consultants to tell them [illegible] to treat humans as humans and [illegible] entific management-based [illegible] were entirely consistent with humane management.

"The people in the human relations movement set themselves up as a kind of high priesthood that would teach how factories could be run better," says Hopper. "Suddenly it seemed that these people knew how factories should be run better than the people who worked in them."

Japan went the other way. Its approach, descended from both Japanese tradition and Occupation teachings, had no high priests, no specialized human relations experts. Instead, everyone was supposed to be as sensitive to human relations as to finance or technology.

Jeff Dodge

Homer M. Sarasohn today

"I decided that I would become a dictator."

Today Japanese management has developed far beyond what a handful of Americans taught a half-century ago, adding exclusively Japanese elements and refining what the Japanese learned.

In 1950 Sarasohn returned from Japan to find many changes at home. "Two things struck me immediately," he recalls. "First, there was an attitude of self-satisfaction—we'd won a war, and there was nothing else to be done. And second, there was already a great emphasis on achieving demonstrable success immediately, on getting an immediate return on the buck." As a Booz, Allen consultant, Sarasohn worked for H.J. Heinz in Pittsburgh, and he says: "They wanted me to upgrade their distribution system, at a time when their product manufacturing system was not meeting its reasonable objectives."

Now as then, he says, "Few American managers show any sense of the long-term implications for their companies and their customers of what they are doing in their business."

What would Sarasohn do today to make the country's factories more competitive? One thing he would not do is try to play catch-up with the Japanese by copying them.

"This present-day fad of aping the Japanese style of management is absolutely destructive of our own future," he says. "We've got to recapture the enthusiasm, the pioneering spirit that made America a world leader."

There are no pat answers, but the key is to create more companies like IBM and Hewlett-Packard—more companies, in brief, where the workers identify with the enterprise. "All my life I fought against becoming a 'company man,'" says Sarasohn. "And then I joined IBM [in 1957]. Under Tom Watson [both junior and senior], the company showed respect for its workers; it was committed to honesty with its customers; and it saw itself as an institution with social responsibilities. When I was visiting a branch office and saw that their attitude toward their customers was perfunctory, I was quite shocked. Then I looked at myself and said, 'Hey, I've become a company man.'"

Capturing their employees' imaginations—getting them to expend their energies for something less tangible than a paycheck—is the greatest challenge managers face today. With help from a couple of young Americans more than four decades ago, the Japanese have excelled at this challenge. Now it's America's turn again. ■

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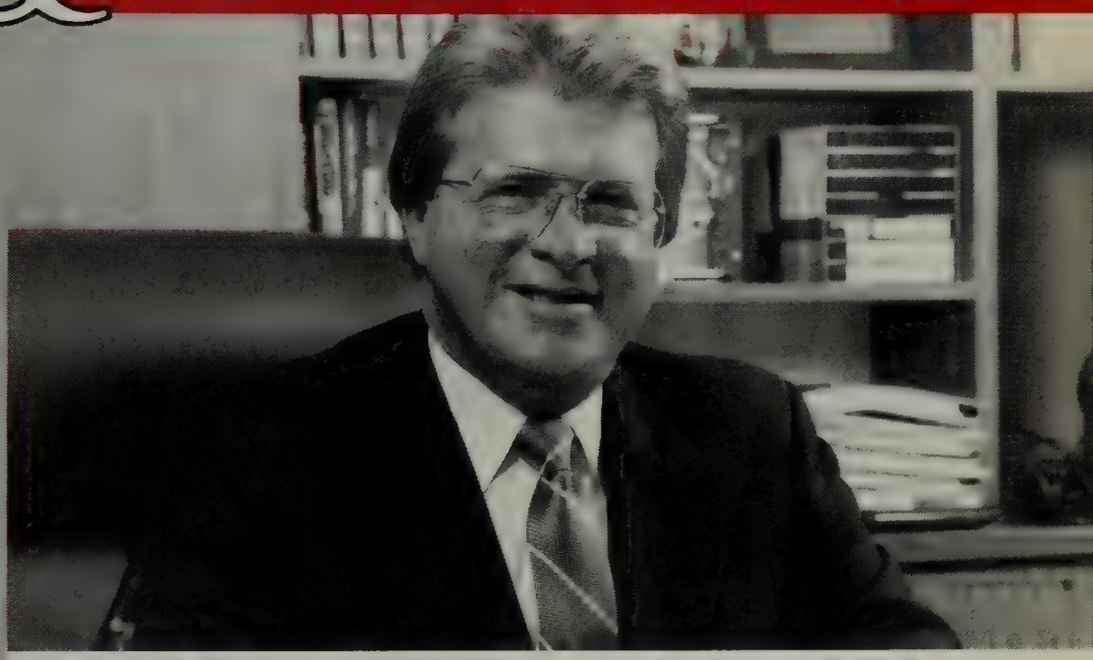

Dennis F. Rasmussen, Baltimore County Executive

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Our more than 12,000 major businesses know the advantage of a strong government/private enterprise partnership. They understand why Baltimore County truly has become Maryland's environment for success.

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AN ENVIRONMENT FOR SUCCESS

Post World War II: Southeastern Baltimore County neighborhoods hustled on three shifts a day as more than 100,000 workers punched time clocks at heavy industrial manufacturing facilities such as the Bethlehem Steel Corp.'s Sparrows Point plant. In all, the industrial segment represented nearly 90% of the county's jobs. But, as the shine of the industrial age began to tarnish, the manufacturing plants and the neighborhoods they supported, began to fade.

January 1988: Thanks to the efforts of Baltimore County Executive Dennis F. Rasmussen, the county and Bethlehem Steel have joined forces to rejuvenate the area's heavy industrial segment. The giant steelmaker, which is the county's largest private employer, donated 405 acres within a 2,500-acre complex for development as an industrial/business park with rail, road and water-way access for tenants. The venture, which will open in early 1989, is expected to increase private investment, create many new jobs and add new county tax revenues.

A government/private industry partnership: According to Robert W. Raybuck, vice president and general manager of Bethlehem Steel's Sparrows Point plant, Baltimore County's commitment to maintaining and improving the region's business climate helped Bethlehem Steel prosper in 1988.

"The business climate fostered by Baltimore County played a key role in Bethlehem's decision to invest $200 million in modernizing Sparrows Point's hot-strip mill, which employs 8,000 workers," said Raybuck. "This major investment demonstrates Bethlehem Steel's confidence in Sparrows Point and its employees."

Baltimore County— A Great Place To Work And Live!

Baltimore County anchors the northern end of the fourth largest market in the nation—the Baltimore-Washington Common Market. More than 680,000 residents take advantage of the county's diverse living conditions, which range from the lush green rolling hills of horse country to the suburban sprawl of the newest growth areas of Owings Mills and White Marsh to the bustling revitalized streets of seven older communities including the fast-paced retail and business districts of the county seat of Towson.

Public parks, a county fair, professional athletics, nationally recognized golf courses, the symphony at Oregon Ridge, horse racing, and boating and fishing on the Chesapeake Bay offer a multitude of recreational adventures. The cultural opportunities and historical traditions of Washington D.C. are less than an hour away via major highways.

Baltimore County tourism soon will get a boost from the $450 million Worldbridge Center complex planned for 1,020-acres in Middle River in eastern Baltimore County. The development by the China-U.S.A. Development Corp. will include a theme park based on the Pacific Rim countries, a retail center, hotel, conference center, exhibit area and office complex when it opens in 1991.

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"Baltimore County and the surrounding areas offer a quality of life that appeals to people all over the country, thus providing a valuable pool of talent to draw on," said George J. Collins, chief executive officer of T. Rowe Price Associates, Inc., a local investment firm. "To a large degree, our success in the tough competitive environment depends on our ability to employ highly qualified people."

An extensive educational network, which includes four vocational-technical schools, four two-year colleges and three four-year colleges, provides Baltimore County with a highly skilled labor force.

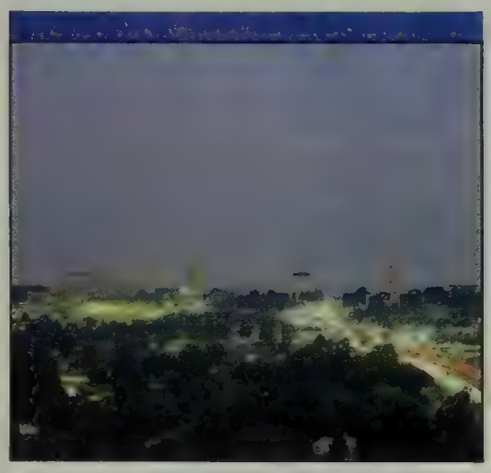
"Recommendations also have been made to set up schools to teach any technical trades we feel are in short supply, such as a machinists' school," said Chet Feeser, director of economic development for Baltimore Gas & Electric Co.

In addition, the county is home to more than 16,000 major businesses, which provide in excess of 300,000 jobs to county residents. Many firms are Fortune 1,000 industries, including the Black & Decker Corp., McCormick & Company and the Noxell Corp.

The county's 18 industrial and business parks offer more than 3,100 acres of land with another 6,000 acres zoned for industry or business scattered throughout the county. Also available are more than two million square feet of building space for manufacturing and distribution firms.

Innovative financing packages that include industrial revenue bonds, export financing, equity financing for franchises, tax incentives, venture capital, working capital and fixed asset loans, and employee training at government expense combine to make it easier for businesses to succeed in Baltimore County.

According to Charles W. Cole Jr., president and chief executive officer of First Maryland Bancorp and First National Bank of Maryland, "solid leadership, a good mix of businesses and a sound economy" help Baltimore County maintain a positive and prosperous economic climate.

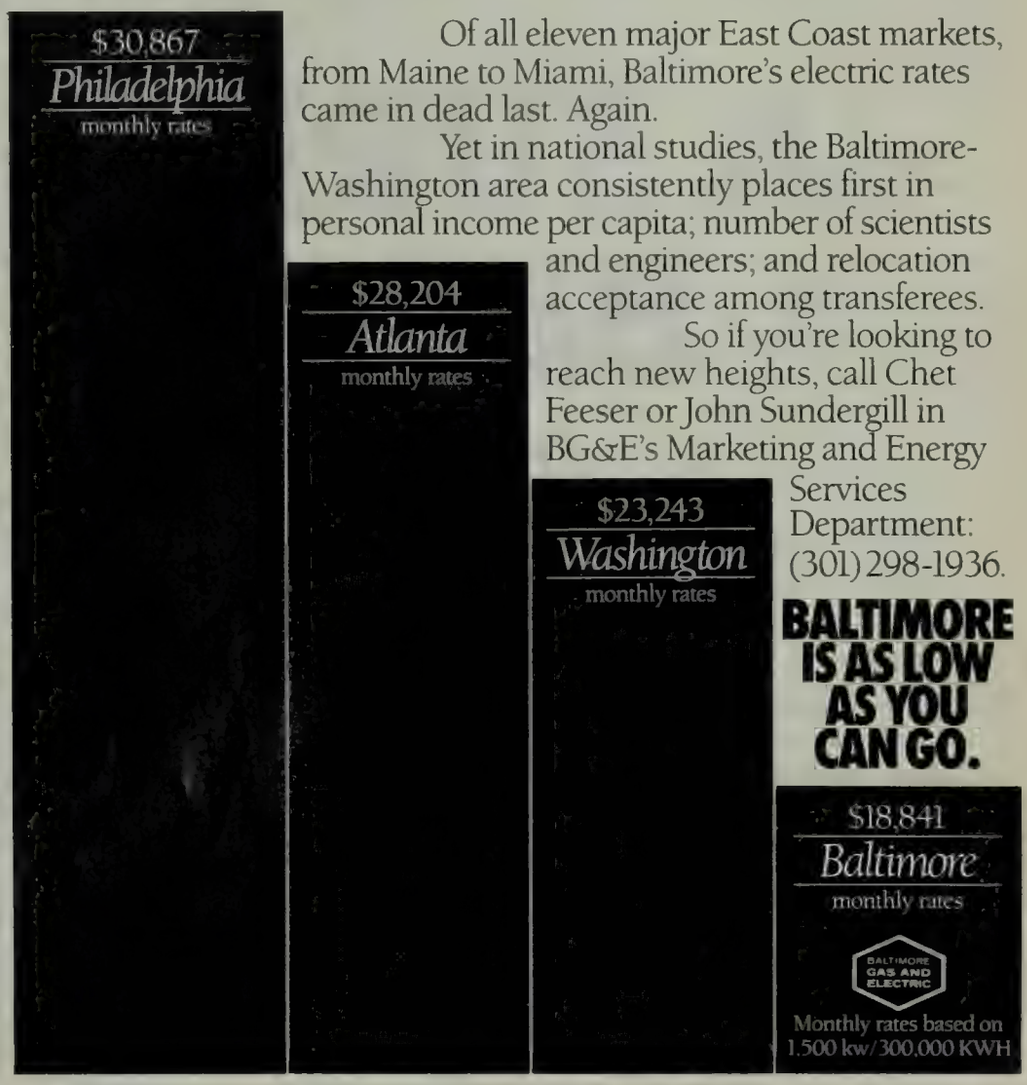


In 1854, voters selected Towsontown as the County Seat of Baltimore County. Today, Towson is recognized as a center for recreational, cultural, business, and governmental activities

"As the principal bank for Baltimore County government, First National Bank is committed to enhancing the economic growth of this vital marketplace," said Cole. "Baltimore County is a beautiful piece of geography in which to do business."

County Executive Rasmussen agreed. "Economic development means jobs, family security and an expanded tax base," he said. "We in government are committed to providing an economic climate in which both large and small businesses can grow and prosper."

Rasmussen added that the county's Economic Development Commission is available to help any firm with financing, development processing, employee training and professional business counseling. ■



Of all eleven major East Coast markets, from Maine to Miami, Baltimore's electric rates came in dead last. Again.

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Unbundled stock units are supposed to be the hottest thing in restructuring since junk bonds came along. Here's why we don't think they are a good idea.

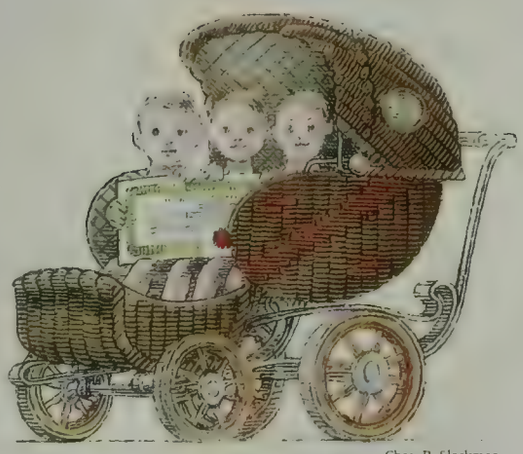
Invisible dilution

By Penelope Wang

INTRODUCED WITH great fanfare a few weeks ago by Shearson Lehman Hutton Inc., "unbundled stock units" are being marketed as a way to lessen the threat of takeover, cut taxes and improve earnings per share. If this gimmick is approved by the Securities & Exchange Commission, American Express Co., Pfizer Inc., Sara Lee Corp. and Dow Chemical Co. say they will offer them to their shareholders as a swap for existing common shares of up to 20% of their capitalization.

If a shareholder takes the bait, what does he get? A package of three separate securities. One is a 30-year, deep-discount bond that will provide guaranteed interest payments equal to the current dividend on the common. The second is a preferred stock that will pay dividends equal to any dividend increases on the common. The third is a 30-year common stock warrant with a strike price equal to the maturity value of the bond—meaning that after 30 years the investor can swap the bond back to the company for a share of common stock.

So the old stockholder gets about what he started with, but in three separate pieces. Presumably, the stockholder can then decide to sell off part of the package and keep the rest. By selling the warrant, for example, he keeps the dividend but loses some future appreciation. If he sells the bond and preferred, he gives up income and some capital appreciation but gains big if the stock takes off. To institutional holders, the package is worth slightly more than the original



Chas B Slackman

share, because of its built-in downside protection. If 30 years from now the stock is worth less than the maturity value of the bond, the warrant expires worthless, but a holder of the units still gets the full bond maturity value. To individuals, the package has a serious downside: higher trading costs if they want to sell.

What's in it for the company? A tax saving. As FORBES has repeatedly pointed out, our tax laws subsidize debt and penalize common equity. By paying deductible interest rather than nondeductible dividends, the unbundled stock units will provide a nice tax saving for the company. Will Internal Revenue disallow this tax ploy? That remains to be seen. If the IRS goes along, there will be tangible gains to the companies involved—and a corresponding loss for the Treasury.

The final supposed advantage of the unbundling is, in our view, an illusion. By replacing common stock with a package of securities, the recapitalization would reduce the number of common shares outstanding and thus the divisor that determines earnings per share. If earnings remain the same, reduction of the divisor makes earnings per share seem larger.

We say "appear" for good reason. In fact, the company is incurring a potential dilution that will eventually offset much of this apparent gain.

Here's why: Years and perhaps even decades later, as rising stock prices induce holders to exercise their warrants, the warrants will be exercised and the canceled stock will reappear, reducing earnings per share.

Argues Norman Weinger, accounting analyst at Oppenheimer & Co., "There's a hidden dilution effect in these units." Abraham Briloff, accounting professor emeritus at Baruch College, agrees: "The unbundled stock unit is the equivalent of a share of common stock, period. The sum of its parts should be equal to a common share and have no earnings impact."

These accounting experts are simply saying that—not counting the hoped-for subsidy from the U.S. Treasury—two and two equals four and cannot equal five.

In the best of all worlds, issuing companies would be required to recognize the potential dilution in the common stock, which would probably cancel any gains in earnings per share. In devising the unbundled stock units, the Shearson Lehman people got around this problem. Under current acccounting rules, warrants are considered "common stock equivalents" and therefore dilutive only when the exercise price of the warrant is lower than the stock price. When the situation is reversed and the warrant is "out of the money," that is, at a price above the current market—as with unbundled stock units—existing accounting rules do not require that the potential dilution be recognized. When initially issued, the 30-year USU warrants are expected to be priced far above the current stock price and thus out of the money.

But here's the rub: If they were certain to stay forever out of the money, the warrants would have no value. But presumably they will have a value. Thus the market recognizes a liability for the company even if the accounting rules don't. Calculating a warrant's value is no simple matter, but that doesn't seem to stop the options boys in Chicago with their sophisticated computers.

If unbundled stock units take hold, the accounting profession will have to address the accounting problems posed by them—in particular, how to evaluate out-of-the-money warrants. It took the accountants a long time to figure out how to deal with the more obvious kind of dilution—in-the-money warrants and convertibles. Our guess is they will be a little slow catching on to this latest trick, too. ■

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More bad news from Russia: A dangerous and unpleasant by-product of glasnost and perestroika seems to be a resurgence of chauvinistic, reactionary Russian nationalism.

Unloosing demons

By Phyllis Berman

WITH HIS reforms, Mikhail Gorbachev has opened a Pandora's box of long-suppressed resentments in the Soviet Union. The media have taken full note of the spreading ethnic demands triggered by the loosening of Soviet repression. But a parallel phenomenon, generally overlooked, is the rising nationalist sentiment among the Russian population itself.

Straw in the wind: At a recent Russia-first demonstration in Leningrad, angry Russians saw a placard with the slogan "Workers of All Lands Unite," ripped it from the hands of one demonstrator and tore it apart. To hell with the world. It was Mother Russia the demonstrators were supporting.

What is Russian nationalism? Its roots go back to the Slavophile movement of the 1840s, during the harsh reign of Nicholas I—Holy Mother Russia, the sacredness of the soil, themes that led to the whole obscurantist bit. Then, as now, Russia was undergoing a crisis of both soul and body. The Slavophiles believed their society could be rescued only by a spiritual rebirth, a return to their beginnings. Their late-20th-century heirs hold similar beliefs.

The Bettmann Archive

Nicholas I, czar from 1825 to 1855
Then, as now, a crisis of both soul and body.

By and large, the movement is anti-Western. It reviles Western-style pluralism, political parties and elections. Instead it advocates going back to an idealized authoritarian past.

Unbelievable as it may sound, many of today's Russian nationalists are nostalgic for the monarchy as a symbol of Russian greatness. They are reacting against the U.S.S.R.'s rapid modernization, the decline of village life, the destruction of churches, women working and the declining Russian birth rate, which means ethnic Russians will soon lose their majority status within the Soviet Union.

Is there anything good in this? John Dunlop of the Hoover Institution at Stanford University thinks so. "There are different strands within Russian nationalism," he points out. "Some adherents are convinced Orthodox Christians, like the Liberal nationalists. What they want may not be so different from Gorbachev's goals."

It is true that at its broad-

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est level, today's nationalist movement simply reflects the feeling of Soviet Russians that they've been forced to swallow their pride and forget their traditions to promote some idea of Pan-Soviet nationality.

But at its extreme the movement is fascist. A faction within the nationalist movement is turning the residue of ill feeling and xenophobia into a racist platform. This is what is rearing its ugly head in the dying days of Soviet communism.

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The nationalistic Black Hundreds organized the Russian pogroms at the turn of the century to free Russia from perceived Jewish cosmopolitanism. Its successor movement today is Memory, or *Pamyat.* This ten-year-old faction is coming increasingly into the open. It started as an informal group within the All Russian Society for the Preservation of Historical & Cultural Monuments, but in 1987 it began adopting more and more fascist trappings. Members now wear black shirts at public demonstrations. Its leading spokesman is a powerful orator, Dmitrii Dmitrievich Vasilyev, a photographer and movie bit player with an eighth-grade education. Memory claims affiliates in 30 Soviet cities.

Memory and similar movements celebrate all things "Russian" and blame Bolshevism for the destruction of Russian family life and traditional values. And who is to blame for Bolshevism? The Jews—in conjunction with the Masons. The nationalist extremists claim that Jews held a majority of positions on the original Politburo and in the Central Committee.

Their belief in a Jewish-Masonic conspiracy falls on fertile ground. Do Russians drink too much? Memory says that is a Jewish plan to undermine the Russian people. Is modern Soviet architecture ugly and un-Russian? Jewish and Masonic architects. Why did the Bolsheviks destroy so many churches? A Jewish plot.

It's clear that communism repressed but did not kill old-fashioned fanatical nationalism. Just how dangerous is this? Soviet émigré political scientist Alexander Yanov, author of *The Russian Challenge and the Year 2000,* finds it fearsome. He has written: "The year 1985 changed Soviet Russia no less than 1905 changed Petersburg Russia. . . . The Russian new right took to the streets. It called for violence. . . . From a politically innocent stirring in dissident intellectual circles it has been transformed into a mass movement."

Yanov may be exaggerating the danger. But retrograde nationalism, the extremist variety, certainly is fearsome and poses one of the most serious threats to Gorbachev's efforts to modernize his long-suffering country. "That," one observer says, "is where the significant opposition to perestroika lies."

The growing influence of the nationalists shows in Soviet creative unions like the Russian Writers Union, which determines the books to be published. It shows in literary journals such as *Molodaya Gvardiya* (Young Guard), *Nash Sovremennik* (Our Contemporary) and *Moskva* (Moscow), which determine which writers to showcase.

Anti-Western nationalist novels that criticize the Russian intelligentsia for falling under the sway of foreigners and lament the loss of traditional values are popular. Viktor Astafyev's *The Sad Detective* and Vasilii Belov's *Everything Is Still to Come* had respectively the fourth- and fifth-largest print runs in the U.S.S.R. in 1987, almost 3 million copies each.

The new nationalism shows up, too, in the visual arts. Ilya Glazunov's exhibit of paintings last July in Moscow included "The Eternal Russia." It depicts the crucifixion of Christ and the last czar's heir, Alexis, surrounded by scenes of debauchery and Soviet terror.

The Bettmann Archive

1881 cartoon: Russian persecuting a Jew
Talk of plots falls on fertile ground.

As freedom spreads through the Soviet economy, growing differences in income and prosperity will show. To the extent that Jews, Armenians and Georgians prove more venturesome, more enterprising than the average Russian, those minorities will appear to be the beneficiaries of perestroika.

Even if Gorbachev's reforms succeed in improving the Soviet economy, it is certain that things will get worse before they get better. The period of economic deterioration and slackening of discipline will provide fertile ground for the extremists. In lessening repression, Gorbachev risks encouraging the worst elements in the Russian character as well as the most creative elements.

Freedom is a complicated and confusing thing. ■

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Capitalists in the Soviet Union? They've had them for decades, a small group of privileged foreigners who waxed rich because they were allowed to do things Soviet citizens couldn't do. Such are the unavoidable contradictions of socialism.

The five-percenters, Moscow's pet capitalists

By Phyllis Berman
with Dana Wechsler

Moscow, 1989, reminds one a bit of Riyadh, 1975, when rising oil prices made Saudi Arabia a magnet for every business person, every salesman, and—especially—every hustler. Like Saudi Arabia a decade and more ago, the Soviet Union today is a previously closed world, opening slowly and to the confusion of both natives and foreigners.

For those lusting for a piece of the potential action, the Mezhdunarodnaya Hotel is the place to be. It is for foreign business people only, and it functions on a level of efficiency far above the Soviet norm. The Mezhd, as most people call it, is hard to get into. Such is the crush to make a buck off perestroika that on any given night at the Mezhd, European and American businessmen in polished Italian loafers and cashmere coats stand at the front desk, not asking but pleading for accommodations. "You are staying with your colleague," a typically abrasive Soviet clerk snarls at a guest who has just produced a telex confirming the booking of two single rooms. The guests had no choice but to share a room. They had forgotten or never knew: In the Soviet Union the customer is always wrong.

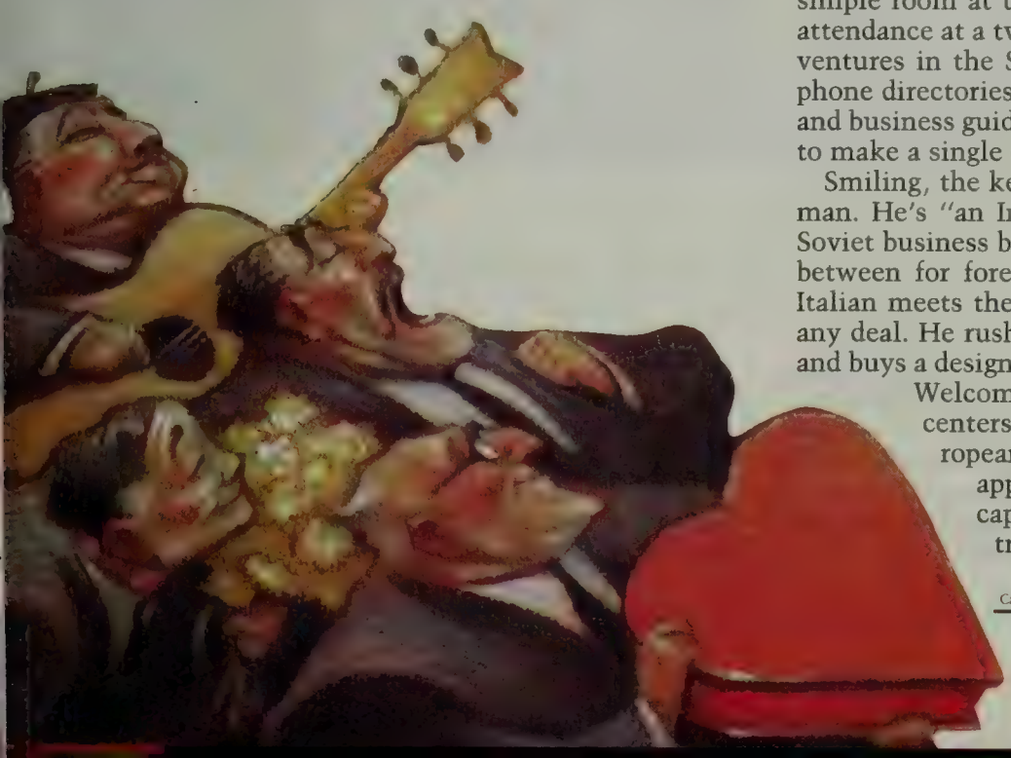
"This has become a cowboy town," declares Giuseppe Savoretti, president of Novasider, a business his uncle founded out of a Moscow hotel room in 1948. The pace of change is such that neither Soviets nor foreigners are quite sure what is going on or how to do business.

The Mezhd is a good place to learn the elemental ins and outs. In every Soviet hotel, a "key lady" sits near the elevator on each floor, collecting room keys from the hotel guests as they leave and returning them when they come back; she's a combination policewoman and concierge.

At the Mezhd the key ladies are multilingual, brisk and attractive. On one afternoon, an Italian businessman is chatting with his key lady. He is in the Soviet Union to set up a joint venture to sell printing supplies. He's had no luck, and he's telling his troubles to the key lady. She lends a sympathetic ear. Not a wealthy man, he has already spent $5,000 on travel, hotel (a simple room at the Mezhd costs $166 a night) and attendance at a two-day seminar on how to set up joint ventures in the Soviet Union. But in a land where telephone directories are issued only to government agencies and business guides are hard to obtain, he hasn't been able to make a single contact.

Smiling, the key lady proffers help. She knows just the man. He's "an Indian" who knows his way around the Soviet business bureaucracy and acts as a professional go-between for foreigners seeking to do deals. The happy Italian meets the Indian, agrees to pay him 5% gross on any deal. He rushes to the foreigners-only duty-free shop and buys a designer-label sweater for the helpful key lady.

Welcome to the shadowy world of the five-percenters—foreigners, though often of Eastern European birth or descent, who, with government approval, serve as house capitalists in a non-capitalistic system. Long before perestroika, even in the darkest days of the cold



Carter Goodrich

war, these dealmakers functioned freely, not only guiding foreigners through the murky confusion of the Soviet system, but also transacting the foreign dealings of the state. They serve a function not unlike that of the "King's Jews" in 17th- and 18th-century Europe, insiders yet outsiders, people permitted to do for the benefit of the state things that full citizens of the state were not permitted to do. Their only competition, giant Japanese trading houses that moved into the U.S.S.R. in the Seventies, never threatened their position. Their existence is just one more example of how medieval the Soviet Union really is.

One of these house capitalists is a U.S. citizen of Armenian descent born in Turkey, Ara Oztemel. He is at the top of a small group of five-percenters—so called for their typical commission. Oztemel has become extremely rich serving the Soviet Union. His Manhattan offices are hung with Picassos and Modiglianis. He has four apartments in Moscow for use by him and by his employees, apartments furnished not in clunky Soviet style but with bathroom and kitchen equipment from Western Europe and furniture from Bloomingdale's in New York. When British M.P. Lord Lucas of Chilworth was turned away recently from the Mezhd, in spite of a confirmed reservation, he found a night's lodging in an Oztemel apartment. Ara Oztemel's son Gregory was delighted to be of service. Says he: "That is the best thing in the world for us. When Lord Lucas asked me what he could do in return, I told him just tell all of your constituents to use us as their agent in the Soviet Union."

For the Oztemels and a handful of similar people, perestroika is both an opportunity and a threat. It is an opportunity because it promises greatly to expand trade between foreign countries and the Soviet Union, creating new business for the go-betweens. It is a threat, too, because a truly open Soviet society would make what they have to offer less useful to foreigners and Soviets alike.

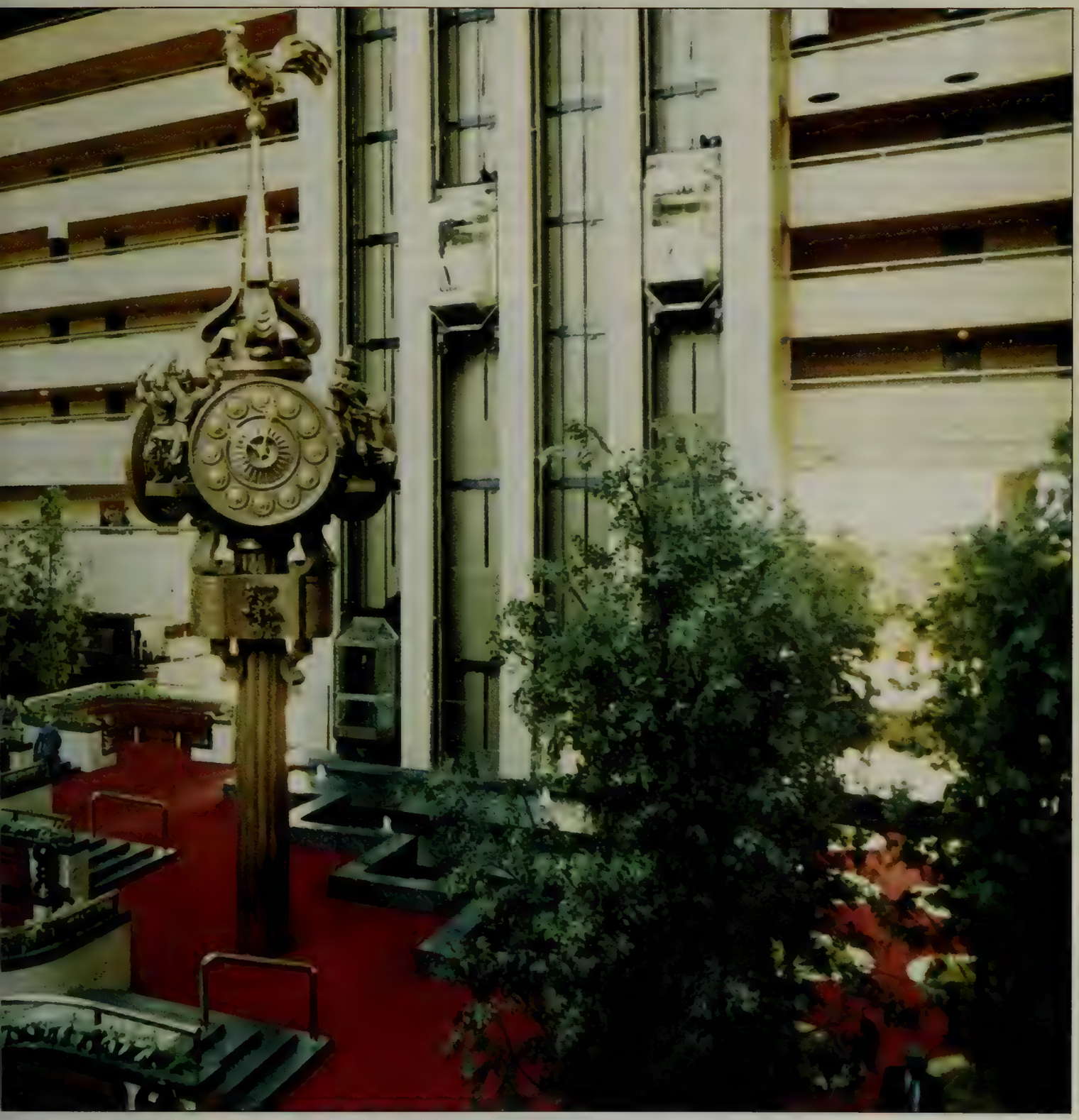
The five-percenters have a recent rival. It is the U.S.S.R. Chamber of Commerce & Industry, which controls the Mezhd Hotel and provides a clearinghouse both for foreigners wanting to do business in the Soviet Union and for Soviet enterprises, which face new pressures from their government to be self-financing. Under perestroika, Soviet enterprises are expected to generate their own foreign currency through exports in order to be able to buy equipment from the West to upgrade their factories. The centrally formulated five-year plans will no longer automatically provide hard currency for their needs.

This newly powerful agency, the Chamber of Commerce & Industry, has in many instances supplanted the clumsy, bureaucratic Ministry of Foreign Trade, which once was the sole authority over the nation's foreign economic dealings. Now the chamber has become the engine pushing the radical reforms of perestroika, initiated by the State Foreign Economic Commission of the Council of Ministers, on Soviet business enterprises as well as on foreigners. Supposedly no more than an association like the U.S. Chamber of Commerce, in reality the Soviet Chamber of Commerce is much more. It is one major instrument for implementing the decentralization of the Soviet economy, the moving of the decision-making process from Moscow ministries to the actual factories and organizations in the field. Its functions include finding joint venture partners from abroad, which is crucial to the success of perestroika. Joint ventures are supposed to provide basic consumer goods, such as shoes and coats, for

Tass/Sovfoto

the desperate Soviet citizenry, and to do so without spending precious hard currency.

To these ends, the chamber sponsored the exhibit of Soviet export goods in New York's Jacob K. Javits Convention Center last December. Its chairman is Vladislav Malkevich, 52, formerly number two in the Ministry of Foreign Trade; top-ranking Western businessmen consider him their most important contact in the Soviet government. Rumors are that Malkevich is destined for even more important positions in the Soviet hierarchy. While



Lobby of the Mezhdunarodnaya Hotel—The Mezhd— in Moscow
Hard to get into, but the place where businessmen want to be.

Malkevich is affable and knowledgeable, he can be prickly when his government is criticized to his face. At a recent meeting in New York, he sharply put down a rather naive coffee exporter who suggested that his product could help the Soviets conquer alcoholism. Malkevich parried with, "You, of course, have no such problem in the West."

For all Malkevich's sophistication, however, the old-time five-percenters are convinced they will more than hold their own under the new dispensation. Unlike some foreign business people and Soviet managers, the go-betweens have been doing what they do for a long time.

Ara Oztemel, for example, started doing business with the Soviets in 1952. On his first visit he camped out in Moscow's National Hotel for a month while negotiating with a minister of foreign trade to buy Soviet chrome. Within four years he had become the sole exporter of that Soviet commodity to the U.S. As he learned the ins and outs of the system, Oztemel branched out into selling other Soviet products: hydrofoil boats, Belarus tractors and Lada cars. In each case he received exclusive territorial

rights. Today he trades $800 million worth of goods a year.

Then there is the British firm M. Golodetz Ltd. Its founder, Michael Golodetz, did his first deal with the Soviets in 1921 when he signed a precious metals contract to import platinum from the Soviet Union. From there Golodetz branched out into commodities trading worldwide. In the Soviet Union Golodetz bought precious metals and phosphate rock, providing the Soviets with hard currency needed to pay for imports. The Soviets bought sugar, industrial chemicals and steel from Golodetz. Golodetz also got into the business of representing foreign chemical manufacturers, providing the Soviets with plastics, cables and synthetic fibers—earning commissions on every dollar of sales. (To its everlasting chagrin, however, it missed out on a big one. In 1969 a big "beverage company"—Golodetz will not say whether it was Coke or Pepsi—offered Golodetz exclusive rights to import its beverage into the Soviet Union. Golodetz turned down the offer. Today Pepsi does roughly $400 million in trade a year with the U.S.S.R.

Did the Soviets have available such hard-to-sell commodities as honey, snake and bee venom and berries? No problem. The five-percenters would sell the honey abroad; the Soviets would use the proceeds to buy shoes or oilfield equipment or what have you; at 5%, those commissions can really mount.

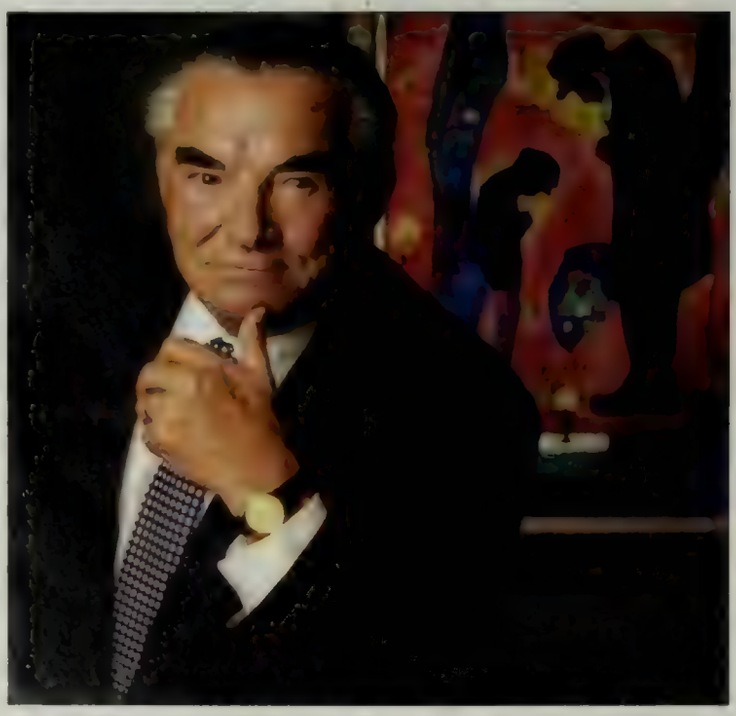
Deals like this are easy for Simon Chilewich, 69, whose Russian-born father began selling Soviet goat and sheep hides to the West in the 1920s. A U.S. citizen whose U.S. operations have included cattle feedlots and slaughterhouses, he has become immensely rich doing business with the Soviet Union. A Soviet economist estimates that Chilewich accounts for about $500 million a year in trade.

Chilewich expects to be active in helping the Soviets both expand and improve their production of consumer goods. In 1972 the Soviets commissioned him to build the first of many industrial projects: three huge feedlots in Rostov, Krasnodar and Armavir. The authorities apparently were pleased with the results, and today he is involved in setting up two turnkey facilities to process meat. The Soviets place such a high priority on these projects that they pay him not in barter but in cold hard cash.

Chilewich, like Oztemel, has been useful to the Soviets in guiding them through the complexities of capitalism. The Soviets purchase big off-road trucks, which are made in the U.S., for use in Siberian coal mines. The climate is rough and so is the terrain, and maintenance is costly. Chilewich, among others, found an Italian manufacturer who would make spare parts for the trucks far cheaper than those sold by the original manufacturer. For this he was richly rewarded, and today Chilewich is king of this so-called will-fit business, supplying replacement parts for foreign-made equipment used in the Soviet Union.

Photos by Harry Heleotis

Ara Oztemel of Satra Group



Simon Chilewich of Chilewich Corp

Capitalists in an anticapitalist system.

Oztemel was forced out of nickel when the U.S. embargoed the commodity in the early Eighties. He turned his attention to automobiles, where he already had a foothold. Today he sells 35,000 Lada cars annually in the U.K. This, however, is not a business General Motors would envy. Each car requires four hours of repair in Oztemel's U.K. factory to make it salable. Like many Soviet goods, the cars have interesting quality problems. Some are delivered to Britain with red seats in front and green in back, or worse yet, no back seats at all. Even with rework, Oztemel can sell the autos in the U.K. for just $5,000 and still make money.

Coca-Cola spent a frustrating 13 years trying to break into the Soviet market, even setting up a countertrade company to swap Coke concentrate for Yugoslavian wines and Georgian tea, milk and cheese whey from the Soviets. Coke finally turned to Oztemel in 1986. Already an exporter of Lada cars to the U.K., he arranged to step up these purchases. He placed a $5 million prepayment on additional inventory—in effect an interest-free loan to the Soviets. In return, the Soviet auto ministry agreed to assign the additional foreign currency to the beverage ministry, which then

allowed Coca-Cola to be paid in hard currency, not barter. Coke agreed to lend Oztemel the $5 million on favorable terms, and give him 5% of all its sales in the U.S.S.R. over the next six years. It's estimated that sales will run $1 billion—$50 million in commissions for Oztemel.

This complex countertrade deal has aroused suspicions that the $5 million payment from Oztemel to the auto ministry was a payoff. A grand jury in Atlanta has spent seven months investigating whether Coke and Oztemel violated the Foreign Corrupt Practices Act. But no charges have been brought. After all, even if it was a payoff, this is the Soviet Union, where different rules apply.

Perestroika offers yet a new field for the go-betweens. Just as they now guide foreigners through the Soviet maze, they have large numbers of Soviet organizations that need guiding through the unfamiliar Western maze. There were 70 foreign trade organizations before perestroika. So far 130 new entities have been created to implement economic decentralization. These together with some cooperatives and all 15 republics will be permitted to deal directly with the West on matters of trade begining this April. Here again, the go-betweens have valuable contacts and know-how. But they have new competition.

Take Vladimir Slutsker, a Soviet citizen who, through marriage, became a permanent resident of Como, Italy. Slutsker knows the ropes. Do the auto factories have more steel bars and slabs than they require, allotted to them by some central planner? Slutsker buys the steel and resells it in the West for a 3% commission. Never mind if it is low-quality steel; if it is cheap enough, there will be buyers. Slutsker also found a Soviet co-op that had a special deal that allowed it to make auto wheel rims with magnesium and aluminum scraps from a state enterprise. The manager of the state enterprise got a stake in the co-op in return. Slutsker unloaded the rims on German and Italian distributors at cut-rate prices. He garners hard currency by selling such Soviet goods in the West. His Soviet clients then commission his firm, Tercel, to use these earnings to buy western high-tech equipment. He earns his 5% commission on both transactions.

Andy Freeberg

V. Malkevich, chairman, Chamber of Commerce & Industry
A most important contact in the Soviet hierarchy.

No question, though: As Soviet citizens and organizations gain experience in dealing with the capitalist world and with operating in a decentralized economy, the specialized knowhow of the go-betweens may be in less demand. But the Soviets, desperate to produce higher-quality consumer goods, have been leaning on them to start investing their own capital in joint ventures. F. Hollander, Sweden's third-largest trading company, trades hides, leather and shoes with the Soviet Union. Says Hollander executive Stefan Meisels: "If we want to continue receiving our raw material supplies [for export] and trading with the Soviets, we're expected to do joint venture deals." That means putting in their own capital.

Peter Kaufmann, a Rotterdam trader, has taken the bait. He is negotiating to manufacture fur coats in a joint venture in the Ukraine. The Soviet-made furs on display now in Moscow's GUM department store near Red Square are ratty and badly sewn. Kaufmann's deal placates the government: It offers a product that will soak up excess rubles in circulation and put, if not glamorous, at least decent-looking furs on Soviet women's backs. It makes sense for Kaufmann because the Soviets will allow him to export 25% of his factory's output. That's how he'll get his money out.

But Chilewich, Oztemel, Golodetz—and, by the way, the Japanese trading houses—are still staying aloof from investing their own money. Unlike some of the foreigners crowding in, they have a firsthand and healthy understanding of the problems and risks involved. Will they be allowed to repatriate profits in the future? How can they be assured of raw materials in the next five-year plan and the one after that?

And, although they are understandably reluctant to talk about it, the experienced go-betweens are well aware of corruption. Konstantin Simis, an expatriate lawyer now living in Falls Church, Va., has written an explosive book on Soviet corruption called *U.S.S.R.: The Corrupt Society.* He describes corruption so pervasive that it makes Latin American corruption seem mild by comparison. He says: "The system has always been corrupt. Bribes to get supplies are like a routine tax in the Soviet Union. These joint ventures are certainly going to have to pay to guarantee their raw material supplies." Even if Simis is exaggerating somewhat, no one who has ever visited the Soviet Union can be unaware of the outstretched hands and the payments necessary to facilitate even the simplest tasks.

A final difficulty in doing business in the Soviet Union is the necessity of using a work force that is without motivation. Merely raising wages doesn't help much: There is nothing to buy with the rubles. Motivating Soviet citizens to work harder requires paying them in goods that are not ordinarily obtainable, things like meat, shoes and radios. Says Janek Geller of Golodetz (Overseas) Ltd., the Eastern European subsidiary of the parent: "The joint venture must offer the worker the right to shop at special shops with the consumer goods only the party elite has been able to get. It is the only meaningful incentive." If anyone knows how to maneuver within the byzantine Soviet system, the five-percenters do. If most of them are holding back from investing their own money, it is because they appreciate the difficulties that lie ahead.

But whether as investors or just plain go-betweens, the five-percenters are going to be around for a long time. ■

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Despite its lagging earnings, John Wiley & Sons is attractive to would-be acquirers. But 78-year-old W. Bradford Wiley doesn't want to preside over the end of nearly two centuries of family control.

Stubborn patriarch

By Claire Poole

JOHN WILEY & SONS has established something of a U.S. record for family ownership. Since its start 182 years ago, it has been controlled by members of the founding Wiley clan. They still own roughly 41% of the outstanding shares. Founded in 1807 by Charles Wiley, the company published such noted authors as Herman Melville, Nathaniel Hawthorne and Elizabeth Barrett Browning.

But the string may have finally run out. Chairman W. Bradford Wiley is 78, and his children seem disinclined to succeed him. Andrew Neilly Jr., the outsider who's been chief executive since 1979, has announced his intention to retire in April. Ruth McMullin, recruited from General Electric Capital Markets Group in 1987 to be chief operating officer, is now designated for the top job. Her background, though, is heavier in numbers crunching than in management or book publishing. The betting is that she's preparing the company for sale.

Wiley clearly needs new management and new blood. It is a good-size company, with $241 million in revenues in its last fiscal year (ended Apr. 30, 1988). But earnings were down 6% to $4.7 million, or $1.10 per share—a 2% net profit margin, one of the lowest in the industry.

As recently as 1982 the company was one of the most successful book publishers and probably the most successful publisher of college texts. It had some of the best titles—Halliday and Resnick's *Fundamentals of Physics*, Kieso and Weygandt's *Intermediate Accounting* and Ramsey and Sleeper's *Architectural Graphic Standards*, for example. Its growth seemed assured. In fiscal 1982 Wiley turned in a stellar performance. It earned more than twice what it did last year on a little over half the sales volume—$10.1 million on sales of $138 million—and returned 19% on stockholders' equity. The company held a celebration for its 175th anniversary and published a 279-page book on its history.

But as often happens, just as the company was congratulating itself the most, its world was changing. In the late 1970 s college enrollments began to slow down. Overall college textbook sales, which had been growing at double-digit rates, slowed dramatically, to 8.8% in 1983 and 4.8% in 1984. Wiley was also hurt by sales of used textbooks, which were marketed at a 25% discount to new ones. Today, 35% of all college texts sold are used. For Wiley, which relied on college texts for more than a third of all publishing sales, those developments were devastating.

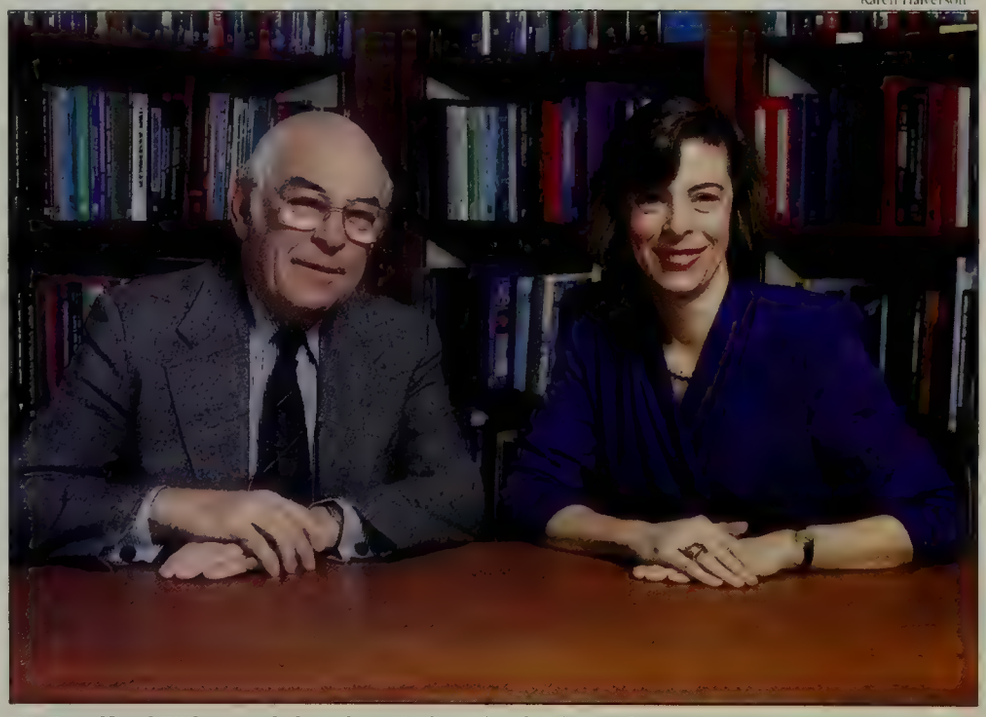
What to do? Why not diversify? Wiley paid $16 million in 1982 for Wilson Learning Corp., which creates training programs for businesses. Founded in 1965 by Larry Wilson, coauthor of *The One Minute Sales Person*, the Eden Prairie, Minn. company seemed like a good acquisition. The training market was growing as much as 20% a year, and logically the new company fit Wiley's professional book and journal business. The two could share an author/client base.

Bradford Wiley, who was more comfortable with college professors than with a marketer like Larry Wilson, let Wilson run itself. Says a former Wilson executive: "Wiley wanted to be Wilson's banker. It wanted Wilson to become a $50 million company but grow any way it wanted to."

Grow it did. Over the next couple of years, Wilson acquired an employee assessment company and expanded into consulting, direct marketing, even interactive videodisks—all in an attempt to create a full-service recruiting and training firm.

Had Wiley management paid closer attention, it would have realized that much of this was unhealthy growth. In fiscal 1986 Wilson's sales grew 28%, but its losses from operations were $754,000. Andrew Neilly, Wiley's chief executive, decided to exercise control. "Wilson was growing in an undisciplined manner," he says. "We didn't put the brakes on soon enough." He replaced Wilson's chief

Karen Halverson



W. Bradford Wiley and daughter Deborah of John Wiley & Sons
The end of the line for a family dynasty?

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Andrew Neilly, Wiley's outgoing chief executive, and likely successor, Ruth McMullin
The betting is she's preparing the company for sale.

executive. By the next fiscal year things were looking up, but they didn't stay up: In fiscal 1988 Wilson lost $2.2 million on operations, and its reorganization contributed largely to Wiley's $3 million in writedowns and charges for the year.

Meanwhile, the textbook business was floundering. In 1987 Neilly recognized that a massive restructuring would be necessary and hired Ruth McMullin.

McMullin has been shaking the place up. "It was clear this company became complacent about its uninterrupted record of success," she says. "And complacency led to an inattention to being tough and disciplined."

McMullin realigned Wiley's businesses under three divisions—educational, professional and trade, and training. She sold most of the stagnant medical division and closed Wiley's West Coast distribution center.

She also trimmed staff. Since July 1987, 141 positions have disappeared. She forced out or replaced almost all of the company's vice presidents.

It wasn't enough. In addition to cutting deadwood, McMullin lost some good people as many veteran editors left for other publishers. Wiley's current college book sales continue to be driven by old titles. According to *Educational Marketer*, an industry publication, Wiley's college division grew only 3.7% in 1987, the lowest rate among the ten largest college publishers. By contrast, Addison-Wesley, whose college division was slightly smaller, grew 15.5%.

In the second quarter of fiscal 1989, net income was down 92%, largely because of a nonrecurring loss on asset sales. First half: earnings down 24%, to 73 cents a share.

These days, bad news is sometimes good news. Wiley's stock has risen in the face of these discouraging earnings reports. The company has two classes of stock, and both of them are up. After trading at around 27 a year ago, the A shares were selling at 43 recently. The B shares, established in 1982 in part to pay down some of Wilson's debt, were recently trading around 54. The market is betting that a takeover has become inevitable.

It would be difficult to take Wiley over except in a friendly deal. Says Bradford Wiley: "The Wiley family has survived for almost two centuries now, and we intend to continue."

Maybe. But one son, Peter, is a writer living in San Francisco. The other, W. Bradford II, who works at Wiley as a consultant, has shown little interest in taking over. Daughter Deborah, Wiley's vice chairman, has shown little aptitude for management.

Theodore Cross, 64, a Princeton investor who unsuccessfully bid for Harper & Row in 1987, seems interested. He raised his stake in Wiley in the last year to 10.3% of the A stock and 5% of the B. Robert Maxwell, the British publishing magnate, has made an overture.

Bradford Wiley seems determined to hang on. But a family member confides to FORBES that the company's independence will probably end when the elderly chairman dies, if not before. So, the vultures circle. ■

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NS NORFOLK SOUTHERN

Here's a switch: In Oregon, the economy is on a roll, yet many business leaders—right, business leaders—are calling for new taxes and bigger budgets.

Shot in the foot

By Marc Beauchamp

WELCOME TO THE state of Oregon. Major roads are disintegrating and pocked with potholes. There is little money even for badly needed streetlights at key intersections. The public and business leaders are crying for more cops on the streets and more prisons, as law enforcement and corrections officials complain of tight budgets. Portland's jails are so crowded that car thieves and other "minor" criminals get citations to appear in court instead of being arrested.

An economically depressed area? Far from it. Oregon ports are exporting record amounts of grain and wood products. Record numbers of tourists are digging for clams on Oregon beaches, skiing Mount Hood and Mount Bachelor and rafting the Deschutes, Rogue and Snake rivers. The timber industry has emerged from the severe recession of the early Eighties with leaner payrolls, more efficient machinery and expanding domestic and export markets.

Economically, Oregon today is much more than wood products. The state's top employers include high-tech names like Tektronix and Intel. Oregon has successfully wooed foreign investment with cheap land and its strategic Pacific Rim location. Fujitsu, NEC and Epson have built factories around Portland. Unemployment—12.5% when Oregon was the tarnished buckle of the sawdust belt six years ago—is down to 5.6%, close to the national average of 5.3%.

Why the apparent paradox of general prosperity coupled with failing public services? The very aversion to high taxes and excessive spending that helped produce the prosperity may

Rich Iwasaki

Do [illegible] limits on taxes and spending threaten further growth?

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One corner of Portland's Old Town
Fancy restaurants and leaky sewers.

Rich Iwasaki

have been taken too far. Says James Shaw, a California accountant who moved to Arch Cape on Oregon's north coast in 1980: "People here vote down anything that requires money, even good causes like schools."

In 1986 Oregonians voted down a sales tax—for the eighth time. Ten years ago, echoing California's Proposition 13, Oregon legislators put a lid on state spending; by law, then, the state's general fund budget ($3.7 billion during the current biennium) can grow no faster than personal income grew during the preceding two legislative sessions. Result: Spending nosedived during the recession and has lagged the recovery. Under another law, if revenues exceed forecasts by 2%, they must be rebated to taxpayers. Last year taxpayers got back more than a quarter of a billion dollars.

Great, except for this: Real per capita spending on roads and other public works projects has declined 40% since 1972, with most of the drop coming since 1980. In Eugene, City Manager Micheal Gleason says he has no money to put up a much-needed stoplight outside Spectra-Physics Retail Systems, a fast-growing manufacturer of laser bar-code readers.

There's more: Overtaxed sewers in Portland and its suburbs are leaking sewage into rivers and streams. Out-

offering plan available from the sponsor. This is not an offering to New Jersey residents.

moded highways are holding back ports like Coos Bay and development in fast-growing Washington County near Portland—home to Oregon's high-tech "Silicon Forest."

Result: Somewhat surprisingly, many business leaders are calling for new taxes and more spending. Says Richard Reiten, the new president of Portland General Corp., the holding company of the state's largest utility, "If our legislators choose to return money while infrastructure goes ignored, we'll essentially shoot Oregon in the foot."

The antitax revolt was in part a revolt against population growth. Many Oregonians wanted to stop the influx of population that was attracted by the state's pleasant living style and moderate climate. "Don't Californicate Oregon—Stay Home," read a popular Seventies bumper sticker. Yet Oregon "can't help but grow," says John Mitchell, chief economist for $14 billion (assets) U.S. Bancorp, Oregon's largest bank.

Neil Goldschmidt, Oregon's energetic 48-year-old Democratic governor, has proposed that the Democrat-controlled state legislature break the spending limit on the condition that revenues be earmarked for a short list of specific programs aimed at fighting crime and improving education.

Rich Iwasaki

Developer William Naito
"We need a crisis mentality."

A political potato even hotter than breaking that hallowed spending limit, however, is a sales or value-added tax, which a growing list of businessmen, from Tektronix Chairman Robert Lundeen to Pope & Talbot Chief Executive Peter Pope, believe is needed to handle expected growth. A sales tax would allow Oregon to stabilize or reduce the income tax rate (now 9%) and property taxes (in some places as high as $27 per $1,000 assessed valuation). It would also tap income from the $2.5-billion-plus tourist trade and help cushion a drop in revenue during the next recession.

If anyone can push through a sales tax, it's probably Goldschmidt. He is a popular governor and a passionate, persuasive speaker not afraid to broach unpopular issues.

Of course, a sales tax would face renewed opposition from retailers. Portland is ringed with shopping malls like the huge Clackamas Town Center, which draw not only Oregonians but also customers from Vancouver, Wash., across the Columbia River, where the sales tax is 7.6%.

But others insist a sales tax is vital. Listen to William Naito, a 63-year-old developer who pioneered the restoration of Portland's Old Town area, where turn-of-the-century buildings house trendy restaurants, shops and art galleries. "We have a lopsided tax policy that is hurting state and local government efforts to provide growth," says Naito, sitting in his modest offices. "We need a crisis mentality to get a sales tax. We might be getting close to that now." ■

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It was 1804. Napoleon Bonaparte stared with frustration across the English Channel toward his nemesis. Behind him was the invincible Grande Armée, nearly 200,000 crack veterans, all straining at the leash to crush the hated English.

Everything was ready for the invasion; the transport barges, the escort fleet, ammunition, cavalry, artillery, ambulance wagons, even field bakeries. Every last detail had been meticulously planned. It was

Napoleon at Boulogne, 1804, Maurice Orange, 1901, Musée de l'Armée, Paris

rely a matter of crossing the twenty-eight miles of er in a single night's journey.

Yet for month after month Napoleon paced the ıch at Boulogne, hesitating to act. Finally, after over ɜar of waiting, he suddenly turned his huge army und and marched it into the heart of Europe. The ı to invade England was laid aside forever.

The thing that had stopped the great conqueror ıe height of his career was the Royal Navy, Britain's ıll of oak." Out of sight, just over the horizon, it was ertheless always foremost in Napoleon's doubts. ɟ though the future Emperor's own fleet outnum-ed the British, he dared not test it.

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"Kids can scream and snuggle up against each other." Meet the mogul behind some of today's most profitable horror films.

"It's great for a date"

By Lisa Gubernick

In 1967 Robert Shaye was a 27-year-old Fulbright scholar who had studied copyright law in Sweden and taken a law degree from Columbia University three years before. But his mind was on movies, not on the law—which is why, that year, he launched New Line Cinema. How does a young guy do this? On a shoestring. He started the company with $1,000 in his fifth-floor walk-up apartment in Manhattan's then seedy-trendy (now trendy-trendy) East Village. His first cinematic venture: distributing films to college campuses.

One night Shaye attended a function sponsored by a marijuana legalization group. As a goof, the group screened *Reefer Madness,* an antimarijuana film from the 1930s. The hippies howled. So did Shaye. But not so hard that he missed the final few feet of film. There the former copyright law student noticed that *Reefer Madness'* copyright had lapsed. Convinced that college students around the country would find the film as campy as the Greenwich Village trendies had, Shaye finagled a print; he ultimately made $2 million distributing the cult flick.

Today Shaye is 49, shaggy-haired and rich. Last year New York-based New Line (which went public in 1986) earned around $5 million (70 cents per share) on revenues of $54 million. Badly burned by independent produc-

John Lin zey

[illegible] Robert Shaye
"Reefer Madness" pointed the way.

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er stocks, investors value New Line at about 8 times earnings, roughly one-third the valuation accorded Orion Pictures and less than half of Disney's earnings multiple. Even so, Shaye's 31% ownership of the company is currently worth over $11 million.

Reefer Madness is history. Today's kids get their kicks from horror flicks, a genre in which Shaye has become one of Hollywood's master producer-distributors. New Line produces and distributes the *Nightmare on Elm Street* series—four films so far, with number five scheduled for release next August. The *Nightmare* films' secret is their protagonist: Freddy Kreuger, the crater-faced, razor-nailed psychopathic killer. Billed as the "bastard son of 100 maniacs" who was conceived in an asylum when the inmates raped a staff aide, fedora-topped Freddy materializes from the teen-agers' dreams to slash and kill his way down Elm Street.

Freddy Kreuger, New Line's moneymaking maniac
Audiences don't want Shecky Greene with claws.

It's all good Hollywood fun, of course, and wildly profitable for New Line. Over the last four years Freddy Kreuger has generated nearly $300 million in foreign and domestic box office receipts and videocassette sales, plus another $3 million in licensing fees for Freddy posters, T shirts, gloves replete with murderously long plastic nails, and other paraphernalia. As of last fall Freddy even has his own hourlong syndicated television series, *Freddy's Nightmares*, which airs in 159 markets around the country.

Behind Freddy's success is Shaye's shrewd business mind. After the [illegible] re, Shaye struggled [illegible] distributing an eclectic slate of films ranging from Academy Award-winners *Get Out Your Handkerchiefs* and *Madame Rosa* to such cult classics as John Waters' *Pink Flamingos* and George Romero's *Night of the Living Dead*.

Shaye had a sharp eye for what young people wanted to see, but he finally concluded that he needed his own product to distribute. "Being without a product resource is anathema to the son of a wholesale grocer," says Shaye. "If a grocer runs out of Del Monte pork and beans, you can call up and order another truckload. In the movie business, once a film plays through you don't know where to go for the next one."

The first *Nightmare* script, written by horror-meister Wes Craven (his most recent film: Universal Pictures' *The Serpent and The Rainbow*), landed on Shaye's desk in 1982. He bought the script for $14,000 and produced the movie for $1.8 million, and was as amazed as anyone when the film became the surprise hit of the 1984 summer season: *Nightmare* grossed over $26 million.

Shaye still didn't realize what he had in Freddy. New Line released the second *Nightmare* film in 1985. It cost $2.5 million and grossed $30 million. As the light dawned, Shaye sent Robert Englund, the actor under Freddy's pocked plastic mask, on guest appearances at theaters around the country.

"Audiences started chanting, 'Freddy! Freddy! Freddy!' " recalls Shaye. "We realized we were onto something."

The next *Nightmare* scripts expanded Freddy's role and endowed him with a special sense of humor. "This is it, Jennifer," he tells an aspiring young actress as he smashes her cranium into a television set in *Nightmare III*, "your big break in TV!"

The modern teenager (if not his or her parents) thrills to this graphic horror genre not least because it provides an adrenaline rush, a sense of accomplishment for having survived the onslaught to the senses when the lights come back on. "It's like a roller-coaster ride," says Gordon Berry, an educational psychology professor at UCLA, "a desire to be scared to death—but still retain a sense of control." Another of the *Nightmare* series devices: In the *Nightmare* films, only the teenagers can see Freddy. This, says Berry, "makes the kids feel they have one up on their parents."

Harold Vogel, Merrill Lynch's widely known entertainment industry analyst, puts the *Nightmare* appeal in more basic terms. "Kids can scream and snuggle up against each other," he says. "It's great for a date."

But Vogel credits Shaye's cost disciplines as much as the joys of horror for New Line's success. Whereas troubled independent producers like DeLaurentiis Entertainment, Cannon Group and New World Entertainment "overpromised and underdelivered," says Vogel, Shaye has stayed with his formula of low-budget ($3.5 million to $6 million) films. And while other independent producers have tried to distribute their films can-to-can against the major studios, Shaye waits for opportunities. New Line's head of distribution, Mitchell Goldman, keeps charts showing when the studios are opening their hits—then looks for a slack time to open his pictures. Even *A Nightmare on Elm Street IV: The Dream Master* was released on Aug. 19, a month after the big studios opened most of their summer releases. Made for $6.5 million, this latest *Nightmare* has grossed nearly $50 million.

Shaye has been equally shrewd in moving Freddy to television. The series is produced by Lorimar Telepictures. Lorimar puts up the money, about $500,000 per episode; New Line retains creative control and gets a producer's fee, plus 50% of the purchase price, assuming the series goes into rerun syndication, which it probably will. Some 22 episodes have already been ordered. At current syndication prices (and assuming the series goes into a second season), *Freddy's Nightmares* could ultimately command $5 million for New Line—so long as Freddy doesn't lose his appeal through overexposure.

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And therein lies a real challenge. "We had focus groups that show the audiences don't want to see too much of Freddy," Shaye says. "They don't want him to become, as Wes Craven once called him, 'Shecky Greene [the old-line nightclub comedian] with claws.' "

"We are seriously husbanding the Freddy franchise," Shaye adds. He is rationing Freddy's appearances in the *Nightmare* programming. On TV, for example, Freddy hosts the series but figures in less than 20% of the actual plot lines.

If Freddy can become a valuable celebrity, can another monster? Shaye figures, why not? A few years ago, Shaye noticed that the copyright for *Texas Chainsaw Massacre*, a particularly grisly cult horror film, had reverted to its original owners. He bought the rights from two Texas lawyers for a $75,000 minimum, plus a percentage of gross profits. Later this year New Line aims to release *Texas Chainsaw Massacre III*, with the hope that Leatherface, the film's buzz-saw-wielding assassin, will join Freddy as a monster kids love to fear. Michael Patrick, president of the 701-screen Carmike Cinema chain (FORBES, *Aug. 22*), the Wal-Mart of the exhibition chains, believes Shaye can make Leatherface play to the heartland. "These guys have proved they can market horror films," says Patrick.

Horror films provide an adrenaline rush, a sense of having survived the onslaught to the senses. "It's like a roller-coaster ride," says psychologist Gordon Berry, "a desire to be scared to death—but still retain a sense of control." Moreover, because only Elm Street's teenagers can see Freddy, it "makes the kids feel they have one up on their parents."

But let's not typecast Shaye. New Line's Christmas release (he put it out in very limited release, believing it could fetch an Academy Award nomination or two) was *Torch Song Trilogy*, a film based on the long-running Broadway play, starring Harvey Fierstein and Anne Bancroft. It grossed over $11,000 per screen its opening weekend—third highest on the charts. Produced for just under $5 million, *Torch Song Trilogy* should eventually gross at least $20 million.

New Line is no Disney, but it sure is profitable. ■

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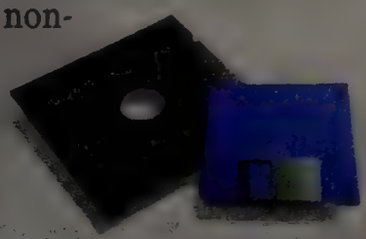

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At 39, Dennis Hayes has a hammerlock on the modem business, but changes in telephone wires may make modems into buggy whips. What does Hayes do now?

Modems, second act

By David Churbuck

When Dennis Hayes started his Atlanta-based Hayes Microcomputer Products in 1977 on a borrowed dining room table, the future seemed boundless. Hayes and his partner, Dale Heatherington, spent their evenings soldering together personal computer modems—devices that allow computers to communicate over a telephone line. By 1984 privately held Hayes Microcomputer Products was commanding 55% of the personal computer modem market, with sales of more than $100 million. The expression "Hayes compatible" is now as standard in the PC modem business as "IBM compatible" in the PC business.

But Hayes, 39, will likely find the second decade in business an even bigger challenge than the first. Low-cost imported clones threaten his premium retail products. At the same time that he gropes for the high ground, mainframe modem makers like AT&T, Motorola and Racal are fending him off in the commercial end of the market.

Further out on the horizon is a larger threat, the conversion of the telephone network over the next decade or so to digital format. Modem is shorthand for modulator-demodulator; the device converts or modulates a computer's digital pulses (1s and 0s) into sound waves that can be sent by phone, then demodulates them back to digits at the other end. In a digital network all this is unnecessary.

Hayes didn't invent modems. They date back to the 1960s, as complicated, cranky devices that had to be taken apart and rewired every time their phone numbers and software changed. Hayes, who started his career installing these models all over rural Georgia for electric utility cooperatives, knew he could do better. He changed data communications forever by giving users the ability to control a modem with their software instead of a screwdriver.

Thomas England

Dennis Hayes of Hayes Microcomputer Products
More than a modem maker.

Hayes still owns the business lock, stock and barrel; no venture capital partners for him. How profitable is his company? Hayes will give no hints, but the fact that he was able to build a big company without cutting investors in for a major piece suggests that it is very profitable indeed. He's also had the wherewithal to buy out his partner in 1984 and to settle a recent divorce case without a public offering.

Hayes has focused on getting shelf space from computer retailers and has built customer loyalty for his premium-priced flagship product, the Smartmodem.

Trouble first surfaced in the form of clones sold by mail order—bypassing the retail distribution system Hayes had locked up. By 1986 prices were down from $500 to under $100. Finally, Hayes started offering cheap modems. Last year he agreed to provide $149 modems for an on-line information service that is offered by Sears and IBM in a few cities and that will go national in a few years. A price battle, though, is not one Hayes can win easily. A lot of the clones are made abroad. Hayes' only plant is in a red clay pine forest north of Atlanta.

Wisely, Hayes prefers to compete on quality. Hayes has protected his position with a recent series of lawsuits to enforce patents on a scheme that distinguishes data from modem commands. Several of these suits were settled last year with royalties and favorable cross-licensing agreements. Speed is the other issue. The most commonly sold modems in the retail market deliver 1,200 or 2,400 bits (1s and 0s) per second. Hayes wants to get more of the commercial market, where transmission speeds range from 9,600 to 19,200 bits per second. There, users demand more sophisticated modems that encrypt data to guarantee security, correct transmission errors, and compress files to speed up the transmission and cut phone costs. "I think of us as more of a computer communications company than simply a modem maker," says Hayes.

What about the danger that the so-called Integrated Services Digital Network (ISDN) will obviate the need for modems? Hayes swears he isn't going to sit back and watch modems turn into the buggy whips of the 21st century. Instead, he is working on an ISDN circuit board that will plug into a PC, enabling it to support a telephone call, data communications and video transmission all at the same time. Explains Hayes: "Soon a modem will come to mean any device which connects a computer to the phone line—analog or digital." And he expects to remain king of modems in the broader sense, as he did of modems in the narrower sense. ■

Phone tariffs are quirky things, which is why Network Equipment Technologies earned $12 million last year helping phone users end-run the public networks.

I can get it for you wholesale

By Fleming Meeks

AMERICAN AIRLINES' Sabre reservation service lives and dies by its telecommunications service. Between its 8,000 reservations operators taking calls at five regional sites and the 68,000 terminals situated at 14,000 travel agency locations, Sabre books an average of 470,000 airline reservations a day.

But up until three years ago Sabre's telecommunications network was spread inefficiently over a web of 1,100 separate voice and data lines—so many in fact that if a line went down, chances were American didn't learn about it until a customer or a travel agent complained. Even then, finding and correcting the source of the problem could take days.

Today, an expanded Sabre network is consolidated onto 45 high-capacity digital lines, each of which is capable of simultaneously carrying dozens of voice and data transmissions. Multiplexers funnel voice and data from multiple locations onto the lines at 14 connect sites and split them out at their destinations. They also automatically detect line problems, rerouting traffic in seconds.

A do-it-yourself phone network can save a big corporate account many millions of dollars, enough, in some cases, to have a strategic impact on the user's competitive position. Indeed, American Airlines is nowadays looking more like a computer and communications company than a transportation company. (After all, anybody can fly airplanes.)

Not surprisingly, then, American won't say what the network cost. But estimates are the airline spent about $5 million on the hardware and recovered the cost in less than 18 months [illegible] on leased line charges. [illegible] ican began installing the system in 1987, traffic on the Sabre network has doubled, while the cost of operating it has increased just 30%.

Supplier of most of the new hardware that went into the American system is a little firm in Redwood City, Calif., Network Equipment Technologies. Says Bruce Smith, chief executive of this firm: "We ripped an area of functionality out of the carrier network and put it under the company's control." And last year the company earned $12 million on revenues of $91 million in the process. Salomon Brothers analyst Michel Guité expects the company to earn $15.7 million on revenues of $130 million in fiscal 1989 (ends Mar. 31).

Smith, 45, is an enterprising man. He put himself through the University of Florida—where he earned bachelor's and master's degrees in electrical engineering by the time he was 21—with such jobs as setting utility poles in the west Florida swamps and skin diving to recover dead bodies for the Alachua County sheriff. Stints at G.D. Searle and Baxter Travenol and a degree from the Harvard Business School followed.

In 1981 Smith warned Communications Satellite Corp., where he was vice president of corporate development, that AT&T's so-called T-1 lines could be a competitive threat. At the time, Comsat was mostly in the business of international phone calls via satellite. But it was also, with partners IBM and Aetna Life & Casualty, owner of the $1 billion Satellite Business Systems, which was aiming to undercut AT&T's domestic long-distance business.

AT&T's long-distance traffic looked like a sitting duck. Rates were artificially high. But Smith foresaw how the rates might come down dramatically, especially for high-volume business customers. All that would have

Comp/Comm

to happen would be for AT&T to go into the business of leasing high-capacity T-1 lines to business users. After all, the phone company had been leasing private phone lines for years. A T-1 is simply a circuit of copper wires souped up to handle voice and data traffic in digital form. The souping up increases the capacity of the line twenty-fourfold. It does not, however, increase the capital cost of the line by anything like 24 times.

Someday, Smith reasoned, business phone users would get wise to this situation. By dint of regulation or competition, they would get the right to lease a T-1 at only several times the cost of an ordinary leased line. Then they would ram up to 24 simultaneous calls down the line. If they had the kind of traffic that could fill most of a T-1—say, between headquarters in Los Angeles and the New York branch office—they could cut their phone bill dramatically. They wouldn't need to use SBS' satellites.

Network Equipment Technologies Chief Executive Bruce Smith
"We ripped an area of functionality out of the carrier network."

The electronic box that folds 24 phone conversations together (and unwinds them at the other end) is a multiplexer. In a long memo Smith outlined how a network of T-1s and multiplexers could deliver the service Satellite Business Systems sought to provide at substantially lower cost. Comsat ignored his memo.

Two years later, in March 1983, AT&T announced that it would lease T-1 lines. It wasn't necessarily thrilled with this new business, which pretty much amounted to nothing but a quantity discount on phone calls. But U.S. Sprint and MCI were soon to offer cheap T-1s. AT&T had to do something, and it did. So did Smith. He quit his job and raised $25 million in three rounds of venture capital financing, putting in "very little" of his own money.

AT&T brought out leased T-1s in September 1983 and has been cutting prices on them ever since. Example: Four ordinary, low-capacity private lines between New York and Chicago currently rent for a total of $10,380 a month. One T-1 costs $10,450. Put 4 calls on a T-1, and the next 20 effectively ride for free.

Comsat should have listened to Smith. It and Aetna sold out to IBM, which in turn sold SBS at a loss to MCI. MCI uses the satellites in its business of competing with AT&T.

Meanwhile, Smith is cleaning up. Network Equipment Technologies went public in 1987, and his 2.2% stake is worth over $5 million.

NET isn't the only winner. Richard Malone, a principal at Vertical Systems Group, T-1 telecommunications consultants in Dedham, Mass., says more than 1,000 corporations have built networks using T-1 lines in the last five years. More will do so, or threaten to, and thereby win rate cuts.

The multiplexers have put phone pricing in a state of benevolent bedlam for business customers. Now that the old copper T-1 is going out of style—replaced by fiber-optic cables with over 250 times the capacity—T-1 has lost much of its old meaning. It has become more a pricing concept than a pair of wires. Indeed, things have gotten to the point where long-distance carriers are willing to offer a large commercial account a "virtual" network. Virtual here means imaginary. We'll imagine you have your own network, and give you an appropriate rate cut, while routing your calls over the public network.

Does this make Smith's company obsolete? Not yet. NET's boxes don't just connect phones. They also provide voice compression, squeezing two to four times as many calls onto a line as was previously possible (FORBES, *Dec. 12, 1988*). Thus, a T-1 could carry not 24 calls but 90. For a variety of reasons, data compression doesn't work very well over the public network.

NET's hardware also monitors the lines in the network. Should a line problem occur, a computer program reroutes critical voice and data traffic over lines within the private network and dumps the balance of voice traffic to the publicly switched network.

Merrill Lynch's telecommunications network, Mernet, provides an example of how important that function can be. Mernet's 50,000 miles of T-1 lines are routed through 51 NET boxes, connecting 60,000 telephones and terminals.

One afternoon in November a cable in AT&T's main fiber-optic corridor between New York and Philadelphia was accidentally cut, affecting traffic not just between those two cities but all the way to Chicago. It took AT&T until late that night to restore part of the service and until early next morning to restore it fully. But Merrill Lynch got data circuits back in less than a minute.

How is that possible, if Merrill's lines are supplied by AT&T? If Merrill could reroute its Philadelphia calls through, say, Washington, D.C., why couldn't AT&T grab that channel for rerouting the calls of the general public? It's in the nature of the T-1 contract. So long as the fiber lines to Washington were still working, AT&T couldn't repossess them, any more than an airline with an equipment problem on scheduled flights can grab a chartered plane.

In a brokerage business, even a few minutes can make a big difference. "How do you place a value on something like that?" asks Merrill's vice president of network engineering, William Gaze.

NET isn't resting on its laurels. Smith plans to offer add-on enhancements to existing boxes that will provide video teleconferencing, computer security, overnight fax transmission and efficient communication between local computer networks and the telecom network. The peculiarities of phone tariffs put Bruce Smith in business. Innovation will keep him there. ■

Commentary by Esther Dyson

MA-AND-PA ENGINEERING

What's the optimum way to mix concrete? As a computer-industry watcher, I rarely get the chance to deal with anything as, well, concrete as this question. But the answer says something about the more abstract matter of how useful high-tech computers can be in low-tech industries.

Recently a reader called to tell me about a program I simply had to see—for the good of the country, he almost said. It was an expert system to help people mix stone, cement and water in correct proportions to make concrete of a specified strength at the lowest cost.

Rather mundane, perhaps, but the mixing of cement typifies a broad class of business problems in which the proportions of variously priced inputs must be determined. The idea is to maximize profits while keeping the finished product within spec. The concrete business has this problem to an unusual degree because the character of the inputs varies so widely, across locations and from day to day.

The theoreticians know how to solve these problems, under a discipline called process engineering. One mathematical tool is statistics. You have to sample the output at regular intervals to see how close it is to the minimum specifications. Another tool is linear programming, a sort of algebra that can find the maximum in a profit formula.

The real world, however, is a long way removed from theoretical equations. Concrete is a fragmented, low-tech industry. The reason for this is the low cost of setting up a mixing plant and the high cost of trucking the product. Your average concrete plant is a smallish, almost ma-and-pa operation. There is no statistician on staff, maybe not even a programmer. How do such operations go about optimizing their concrete mixes?

The same high tech/low tech dilemma is present in a host of other places, from asphalt plants to garbage disposal. And farms? Optimizing a mix of crops or fertilizers is a classic linear programming problem, subject to variables in crops, soil and weather. But farmers don't have time to be programmers.

A small Dallas-based firm, Shilstone Software Co., is attempting to bridge this gap between high and low tech. The software firm is an outgrowth of an affiliated engineering company, Shilstone & Associates, whose business is consulting to concretemakers, builders and architects. Through a software subsidiary, it is marketing a program that optimizes concrete batches. It isn't really an "expert" system, with if-then rules, although it certainly embodies expertise in its calculations. But it shows that the concrete business itself is far more complex than I knew.

The classic formula for concrete is a simple 1-2-3: 1 part cement, 2 parts sand, 3 parts gravel, plus enough water to make the mix pourable but not too sloppy. Weaker concrete—less cement in relation to the other ingredients—is cheaper, and hard to detect until 28 days after it is poured. (Too late to fix easily but early enough to sue.) Concrete stronger than required is expensive to the maker, who tries to make sure that his concrete meets but doesn't exceed specs.

But quality control is extremely difficult, because the raw materials are so variable. The rock and sand are quarried locally, and the cement varies from plant to plant. Size and shape as well as composition of the pieces of rock and particles are relevant. A rough, thin, flat stone has different properties from a smooth round stone, and certain varieties of rock are more brittle or more dense than others. Other factors such as temperature and the wetness of the materials also come into play.

Finally, there's a factor that's not supposed to exist: Once the concrete is on the truck, the driver may pour extra water into it (from a reservoir above the rotating chamber) if he thinks the concrete is drying out. He's not supposed to do this, of course, but no one wants a truckload of solidified rock.

So that's the problem. What's the solution?

Shilstone sells two PC programs. One, a database program, helps concretemakers keep track of the batches of concrete they mix—time, date, source and description of materials, materials mix and tested strength. For legal and business reasons, concrete buyers generally test their concrete by taking random samples and testing them in a compressor (which measures the force required to make it crack) 7 and 28 days later, and give the results to the concretemakers. With the help of these data and their own observations, the concrete suppliers can use the second, analytical, program to determine optimum mixes for future batches.

Shilstone is close to recovering the over $1 million it has sunk into its software so far. Now it is looking for venture capital to finance enhancements, including a more sophisticated optimizer that would use linear programming.

The toughest part of Shilstone's work, though, is getting programs such as these ($995 each) into wide use in a ma-and-pa industry. Many concrete operations are now using computer systems for dispatching and record-keeping, since concrete, with two hours from addition of water to the start of setting, requires the ultimate in just-in-time manufacturing. But still, it may take some doing to get concrete contractors to absorb computers into the heart of their business—until they realize it gives them a competitive advantage in costs and in meeting customer specifications. Most concrete operations aren't too punctilious. But with a small investment all of them could benefit from that kind of expertise through programs such as Shilstone's.

Esther Dyson is editor and publisher of the newsletter [illegible]

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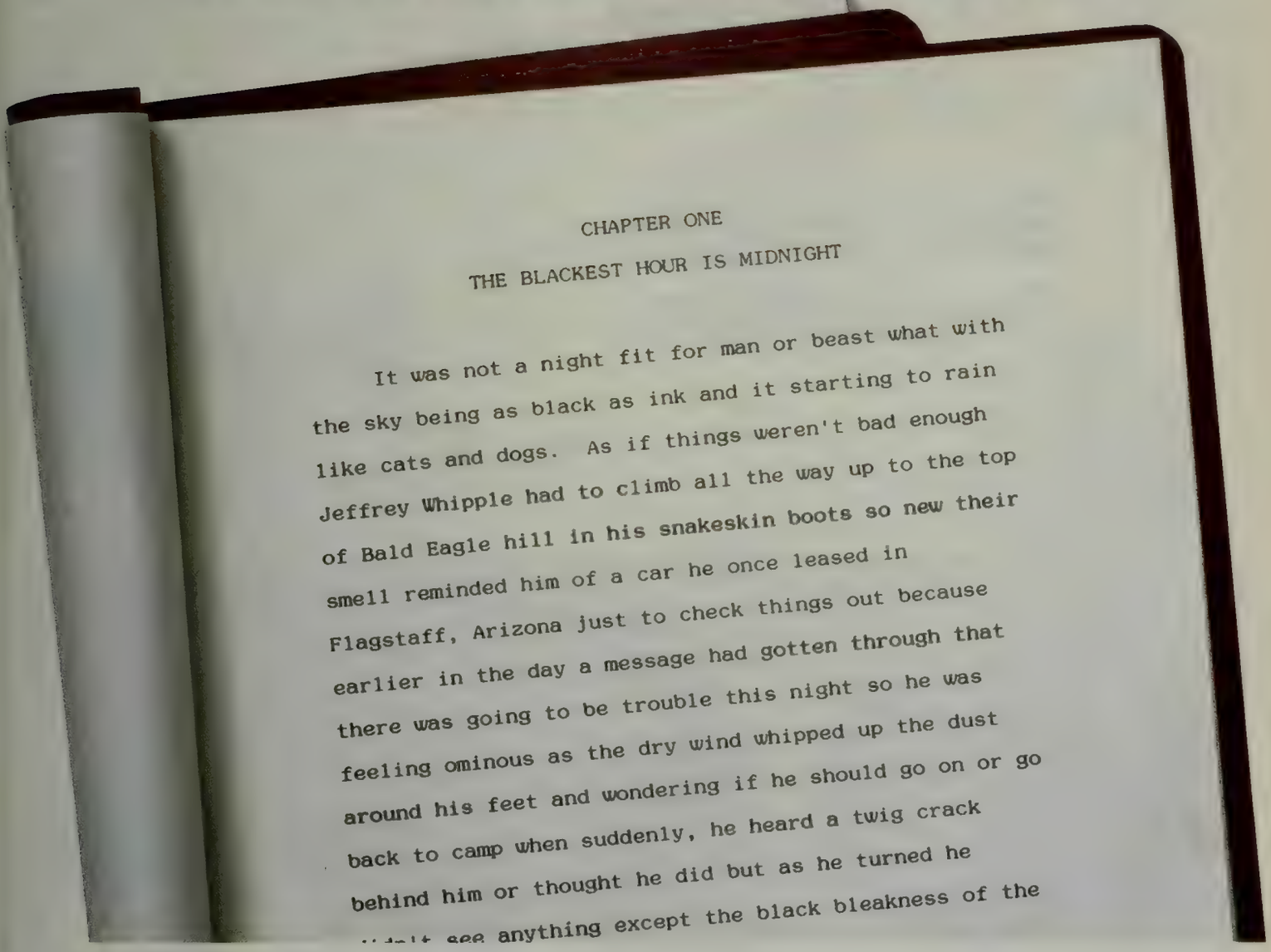

CHAPTER ONE

THE BLACKEST HOUR IS MIDNIGHT

It was not a night fit for man or beast what with the sky being as black as ink and it starting to rain like cats and dogs. As if things weren't bad enough Jeffrey Whipple had to climb all the way up to the top of Bald Eagle hill in his snakeskin boots so new their smell reminded him of a car he once leased in Flagstaff, Arizona just to check things out because earlier in the day a message had gotten through that there was going to be trouble this night so he was feeling ominous as the dry wind whipped up the dust around his feet and wondering if he should go on or go back to camp when suddenly, he heard a twig crack behind him or thought he did but as he turned he didn't see anything except the black bleakness of the

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C&C Computers and Communications

Edited by Gary Slutsker

Du Pont was the pioneer in high-strength polymers, but Allied-Signal, the latecomer, may wind up with a better bottom line.

Step aside, Superman

By Alyssa A. Lappen

At H.P. White's indoor ballistic test lab in Street, Md., a technician hits the remote control trigger of an Uzi submachine gun and pumps 24 9mm rounds at a clay dummy clad in a protective vest 15 feet away in a cinderblock firing range. The bullets flatten on impact and either fall to the floor or remain embedded in the vest.

The vest is made of a new kind of ultra high molecular weight polyethylene material called Spectra Shield. Incredibly, the bullets produce only a series of slight, dark bulges on the inside surface of the nonwoven com-

Photos by Paul Fetters-Matrix

[illegible] a Spectra Shield vest. The vest, above, is barely affected

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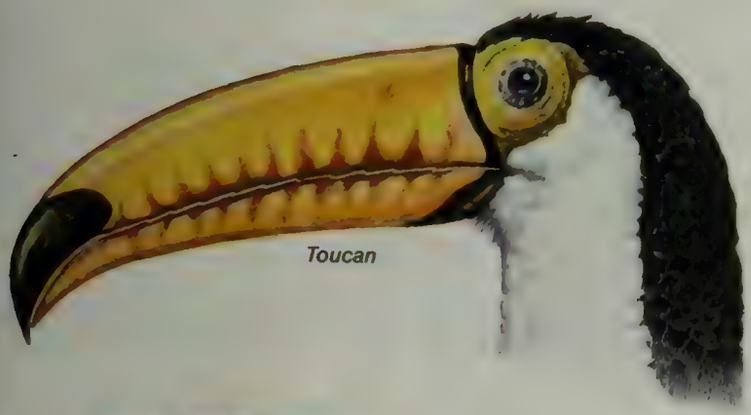
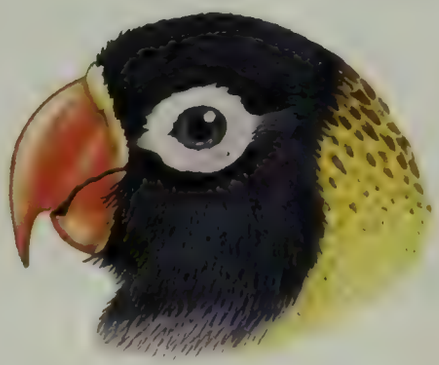
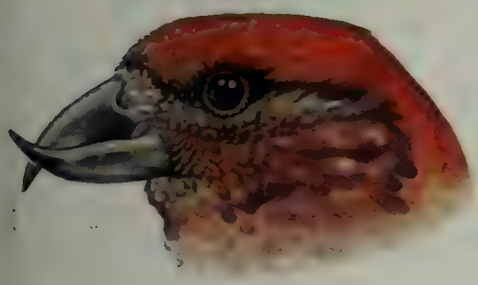


Toucan



Yellow-collared Lovebird



Crossbill

Spoonbill

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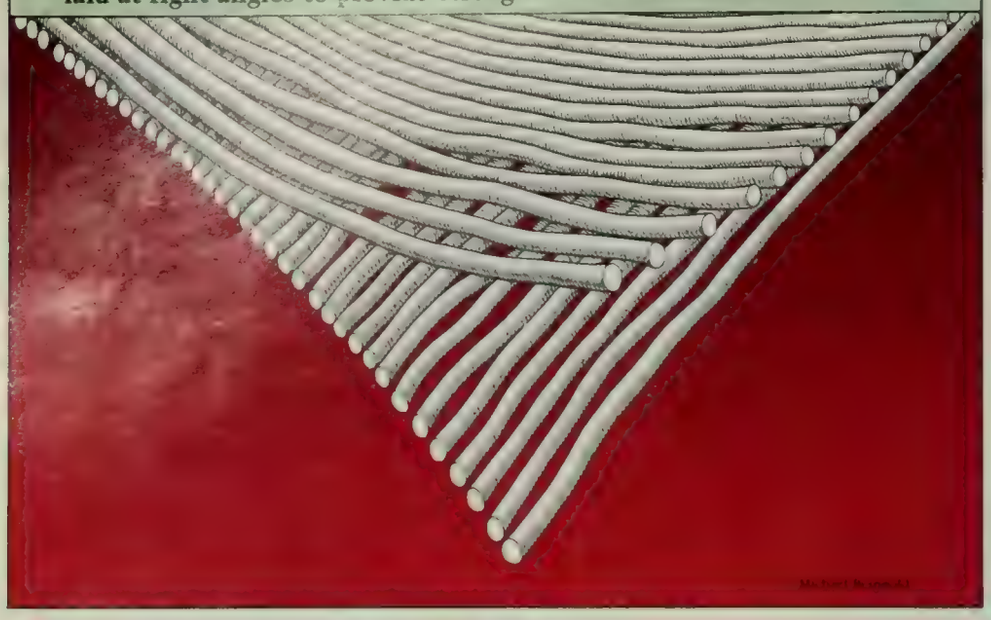
Spectra Shield is layer after layer of yarnlike fibers an eightieth of an inch across. Each fiber in turn is spun from filaments—too small to see here—that are only a thousandth of an inch across. Layers of fibers are laid at right angles to provide strength in two dimensions.



Science & Technology

posite fabric. "Spectra is the strongest fiber known to man," crows James Dunbar, 44, the tall, redheaded chief of a new group at $12 billion (1988 sales) Allied-Signal that makes the stuff in Petersburg, Va. For emphasis, Dunbar shows a visitor a handful of 9mm bullets that have been flattened by Spectra Shield.

Introduced commercially only last April, Spectra Shield is shaping up as a serious competitor to Kevlar, Du Pont's famous high-performance polymer fiber. It has already generated keen interest from police, armored car companies, the U.S. Army and even some foreign governments. It can be used not only in bulletproof vests but also in such items as military helmets, surgical gloves, helicopter seats and door plates, and underside shields for armored cars. Allied also wants sporting goods makers to step up use of the fabric in everything from canoes to tennis rackets, from hockey sticks to skis.

Allied is making some pretty spectacular claims about Spectra Shield. It [illegible]ys that if a vest of the same 5.5-pound weight and ¼-inch thickness [illegible]ed in the ballistics test above were made of Kevlar 29, many bullets could [illegible] through.

[illegible] says that's unfair. Not only [illegible] Kevlar 29 vests actually protect wearers from Uzi ammunition, but Du Pont retaliated last October, introducing a second generation, Kevlar 129, that it claims is equal to or better than Spectra Shield. (Allied's ballistics comparison is based on Du Pont's original Kevlar 29.) Kevlar 129 is 15% stronger and lighter than the original and even comes in a variety of colors. Moreover, Du Pont is still working on further improvements in the lab.

By at least one benchmark, the Allied fiber is stronger—in fact, ten times as strong as steel. Spectra fibers have a tensile strength (resistance to being pulled apart) of 35 grams per denier, a common measure of textile strength. Kevlar 29 has only 23 grams per denier; Kevlar 129 has 26.5. Spectra Shield averages $18 to $20 per pound for use in bulletproof vests—competitive with Kevlar.

Being first with a polymer of dramatic strength, Du Pont wins the palm for originality. But Allied may get the profits. By being second into the market, Allied let Du Pont do much of its market research. When Kevlar was first introduced, more than two decades ago, Du Pont wasn't at all sure who its customers were or what possible uses the fiber had. Today, after spending more than $700 million developing the polymer and finding markets for it, Du Pont is selling roughly $300 million worth of Kevlar a year. Kevlar's uses range from protective clothing like chaps for lumberjacks and bulletproof vests to brake pads and rocket engine linings. Finally, three years ago, Kevlar began earning a profit for Du Pont.

Allied-Signal, in contrast, spent only six years and something under $100 million on Spectra Shield. Allied experimented for years to find a really strong high-performance fiber before coming up with Spectra.

The way Du Pont sees things, competition can only give these new materials more credibility. "Spectra essentially helps the market grow by offering new attributes," says Du Pont's Tom Neal, head of domestic marketing for Kevlar.

How does the Spectra Shield vest stop a speeding bullet? To make the fabric, hundreds of Spectra fibers are combed into sheets of parallel threads aligned so closely that they touch or overlap. Held together with plastic resin, the sheets are pressed together at right angles, much the way plywood is made. There are virtually no gaps between the fibers and no slack in the nonwoven construction. Thus, the fabric quickly dissipates the energy of the impact.

Since 1985 Allied has been selling Spectra fibers for use in everything from sailcloth to rope. Allied buys polyethylene from chemical companies like Italian-controlled Himont, and spins it into fibers.

Kevlar vests, in contrast, are made by weaving Kevlar fibers. Allied claims that instead of absorbing the shock, the interstices in the woven fabric in some ways reduce the vest's resistance. Also, weaving weakens fibers. Why doesn't Du Pont make composite fabric like Spectra Shield? To do so, it would need to license Allied's patented construction technology, an unlikely scenario.

"There is still a place for Kevlar," says Dunbar. Whereas Kevlar is resistant to high temperatures, Spectra Shield melts at 300 degrees Fahrenheit. That limits its use in firemen's gear, rocket engine linings or protective belting in tires—all ideal uses for Kevlar. (The split-second heat from impact of bullets is no problem; the bullet has come and gone long before the heat can do damage.)

Du Pont opened the market, but many chemical companies—Amoco and Hercules in the U.S., for example, and foreign-based BASF and ICI—are looking to get in on the action, if not for Kevlar- and Spectra-like materials, then for other high-performance plastics and carbon fibers.

Du Pont may ultimately make a lot of money from its pioneering research, yet less, in relation to its investment, than its imitators.

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In Touch with Tomorrow

TOSHIBA

Edited by Jeffrey A. Trachtenberg

That indefinable air of exclusivity is back at Tiffany, along with expensive, exquisite jewelry and genteel service. So are the enviable profits and the growth.

Cocktails at Tiffany

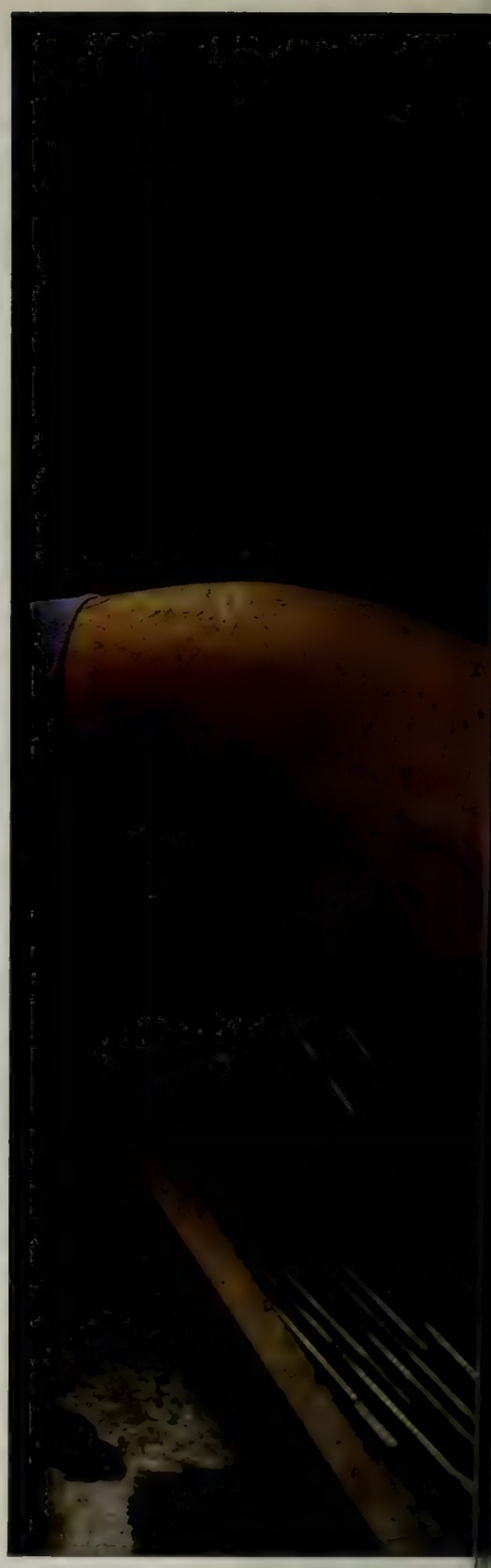
NOT FIVE YEARS AGO, customers visiting posh Tiffany & Co. were likely to be surprised by the amount of cheap glassware and crystal on display. How times have changed. Today, just inside the busily revolving Fifth Avenue door, there is a stunning diamond necklace anchored by a fancy yellow diamond as big as an ice cube (107 carats) selling for $7 million. If you are in the market for such baubles, a solicitous salesperson will also show you a pear-cut diamond for $800,000 or an exquisite 18-inch string of iridescent black pearls from Tahiti at $250,000.

Charles Lewis Tiffany
Image is everything.

From 1979 to 1984, when Avon, cosmetics merchandiser to the masses, owned Tiffany, the store carried far fewer such pieces. The powers that were at Avon, preoccupied by inventory turnover rates, emphasized gifts such as $7 wine glasses. "Avon saw no reason to keep so much money invested in a small number of items," says John Loring, Tiffany's design director for the last ten years. "It terrified them."

Avon's misguided marketing almost destroyed a brand name that had come to symbolize luxury and exclusivity to millions of shoppers in this country and abroad—that special gift in the robin's-egg-blue box. The merchant that once catered to Abraham [illegible] Diamond Jim Brady and Gyp[illegible] lost $5 million in 1984, the same year that management, including William Chaney and Thomas Andruskevich, grabbed the store back from its bungling corporate owners in a $136 million leveraged buyout. "Avon believed in more units and fewer dollars," recalls Loring, "but Tiffany had always been merchandise-oriented." Chaney et al., now completely in charge and backed by the clear vision of Loring and marketing director Suzanne McMillan, put the silver spoon back in Tiffany's mouth. For fiscal 1989 (ended Jan. 31) Tiffany's earnings jumped an estimated 50%, to $24 million, on an estimated sales gain of 24%, to $285 million. At $41 a share on the New York Stock Exchange—Tiffany went public again in 1987 at $23—the company is valued by Wall Street at 19 times earnings.

Tiffany's turnaround suggests that you *can* go home again. A very quick two months after the leveraged buyout, Tiffany trumpeted its reentrance into the upper echelons of the luxury jewelry business with a $10-million-plus diamond collection consisting of 22 individual pieces of jewelry made in Tiffany's own atelier. (The jewel among those jewels: a diamond necklace valued at more than $1 million.) Backed by a national advertising campaign—"Tiffany Classic Diamond Collection"—the jewels toured five of eight branches in the U.S. "We wanted the customers to know that we had that kind of merchandise again," says McMillan. Twenty-one pieces have since been sold. Today 72% of the merchandise carried is exclusive to Tiffany.



Another smart move to refocus the attention of the rich and famous: opening the store for special events to the taffeta-and-tuxedo set—such favored society charities as the American Ballet Theater. Gushed society columnist Suzy last month: "The kickoff party for all this is a Cocktails at Tiffany celebration hosted by Tif-

Shonna Valeska

Handcrafting a $595,000 diamond and ruby necklace on the store's seventh floor
Once again in the upper echelons of the luxury jewelry business.

fany's main man, William Chaney, and ABT's main man, Mikhail Baryshnikov. Ever so many people have said they were coming—Patricia Patterson, Georgette Mosbacher, the Ahmet Erteguns, Bianca Jagger, but you get the picture."

Tiffany's picture includes gross margins of 49% and growing, buoyed by the fact that Tiffany almost never runs a sale (two in the last 30 years, the most recent in 1984, to clear out the Avon schlock). There is a new mahogany-paneled jewelry-viewing salon on the mezzanine at the flagship store. A full 42% of revenues flows in through those famous Fifth Avenue doors. And there is a thriving catalog business as well, with more than 7 million robin's-egg-blue catalogs featuring a $1,900 women's gold watch and a $6,400 set of earrings among other bangles. Direct-mail sales are growing by 15% annually. Says Scott Sandberg, a vice president with Impact Resources, a marketing company: "Nobody buys the Tiffany perfume for its scent. They want that name and blue box."

The way the population is growing, Sandberg notes, plays directly to Tiffany's strengths. The number of households earning over $50,000 has quadrupled in this decade, according to Census Bureau data—4% of 81 million households in 1980, 15% of 89 million households in 1986. Part

of Chairman Chaney's response has been to broaden offerings of luxury merchandise—Tiffany fragrances at $220 an ounce, Tiffany silk scarves at $175, handbags and evening purses from $225 to $1,500.

The Tiffany aura, of course, radiates beyond the mink-and-limo crowd. Even on a slow day, 3,000 visit the store in New York. On a busy Christmas-season Saturday, that balloons to as many as 25,000. By contrast, Bulgari, the famed Italian jeweler a few blocks north on Fifth Avenue, attracts maybe 12,000 customers in a year, and sells to no more than 5,000. "If you look at Tiffany's product line, their target is anyone walking in the door," says Robert Donofrio, general manager at Bulgari. "If you look at Harry Winston, Van Cleef & Arpels or Bulgari, a level of taste and understanding of jewelry is required. In those stores somebody has to let you in. That tells you something."

Richard Bowditch

Marketing director Suzanne McMillan and some of her products
"We realize that the robin blue box is Tiffany."

It tells you that Tiffany must walk a fine line between too much exclusivity and not enough. If Tiffany gets too snooty, its middle-class customers will be too intimidated to shop. What it sells, in addition to the objects, is peace of mind to the socially insecure. "You can't underestimate the importance of special occasions," says John O'Shaughnessy, a professor at the Columbia University Graduate School of Business. "People are frightened they will make some social error, especially because on many occasions they aren't sure what is appropriate behavior. So they turn to Tiffany."

And when they do, it is no accident that their gift comes in a robin's-egg-blue box tied gracefully in white ribbon. "We realize that the robin blue box is Tiffany, so we made it an essential part of our marketing campaign," says marketing director McMillan. "We produce 30 new color ads a year, and a Tiffany box is in every one." Tiffany spent about $7 million in print advertising in fiscal 1989. For fiscal 1990 the retailer may spend as much as $10 million. Generally, these days, the store keeps it simple. It usually buys the same spot every day, for example, in the *New York Times*—upper right corner, page 3, first section—to feature one or a set of exclusive jewelry creations plus other products. In magazines such as the *New Yorker* and *Town & Country*, it uses full-page color photographs, which always include a Tiffany blue box.

Is this approach effective? One Tiffany ad for the Christmas season just past promoted a $20,000 diamond necklace. Four sold immediately, including one to a customer who bought it by telephone. "Buying expensive jewelry is probably the blindest purchase people ever make," says Peter Schneirla, Tiffany's senior gemologist. "We don't sell diamonds or gems as investments, we sell them as adornments."

The magic has been recaptured with flair. It was Tiffany, after all, that made the attractive jewelry designs of Angela Cummings famous before she bolted to Bergdorf Goodman in 1984. And this is the store that made North Carolina emeralds and Montana sapphires chic. The same is true of Tanzanite, a violet-blue stone found in Tanzania. Tiffany also identified and named Kunzite, a pink gemstone found in San Diego County and named after George Frederick Kunz, a former Tiffany gemologist. A bit of polish, a handsome setting and a place in Tiffany's catalogs transformed these stones. A diamond and 26-carat Tanzanite necklace in the 1988-89 Tiffany Blue Book is priced at $103,000.

Shonna Valeska

Chairman William Chaney with a $7 million necklace
Putting the big stones back in the store.

"Image is everything if you're selling fine jewelry," says Columbia Professor O'Shaughnessy. "And when you have an image of being classy and snobby, it can be carried over to other products. In the case of Tiffany, the real value comes from being deemed socially appropriate."

In the case of Tiffany's owners, it means 49% margins and being deemed worth 19 times earnings.—J.A.T.

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Personal Affairs

Edited by William G. Flanagan

The Internal Revenue Service isn't thrilled about annuities, but issuers are enhancing them even more—by reducing charges and offering more investment options.

The tax shelter that's still left

Gerry Mooney

By Edward Giltenan

ASIDE FROM municipal bonds, your pension fund and the roof over your head—if you own it—annuities are about the only tax shelters most of us have left these days. Issuers are trying to make the most of them by sprucing up annuity products, with considerable success. Since 1983 annuity premiums have increased threefold. This year they [illegible] billion.

[illegible] are some of the new sweeteners? Surrender charges, those onerous penalties you must pay for cashing out early, are being softened or even wiped out. And variable annuities, which work like tax-deferred mutual funds, are coming in an ever expanding variety of packages.

Western Capital Financial Group, for instance, offers variable annuity holders a fund managed by the well-known money manager Martin Zweig. Nationwide Life's Best of America III offers variable annuity funds managed by Neuberger & Berman and by Fidelity Management & Research Co.'s mutual fund managers. Fidelity itself markets annuities run by some of its fund managers, through Fidelity Investments Life Insurance Co. and through Monarch Life Insurance.

Guardian Insurance & Annuity Co. offers Value Guard II, managed by Value Line. Travelers even offers a market-timing fund to variable annuity holders game enough, or innocent enough, to try that technique.

Annuity buyers are also being wooed with bonuses. Prudential Insurance Co.'s VIP, for example, offers a bonus of 1% on any deposit you make in the first three years. The perk is limited to $1,000 a year.

For all such lures, of course, the key attraction of annuities remains tax-deferred compounding all the years you leave the contract in force. (And here recall "the rule of 72" on tax-free compounding. Divide the interest rate into 72, and you will have the number of years it will take for your money to double. It's eight years at 9%, for example, nine years at 8%.)

The tax deferral means you're taxed only once you begin to make withdrawals, presumably after retirement. And the money you put into the contract to begin with is treated as the last money withdrawn, hence it's not taxed at all. Bear in mind, though, that should you borrow or take any cash out before age 59½, Internal Revenue will saddle you with a 10% penalty on top of ordinary income taxes, even if the issuer has no early withdrawal penalty.

There are now two basic types of annuity: fixed rate and variable. In both, you put down aftertax dollars in one lump sum or in several installments over a period of time. When you decide to reap your reward, presumably at retirement, you can do so in one lump sum or let the insurance company pay it to you in monthly installments, which can be guaranteed until your death.

Fixed-rate annuities are currently in fashion, in these days of relatively high interest, because they guarantee you a specific interest rate for anywhere from one to ten years. Sun Life of America, for instance, offers a one-year rate of 8.5% and a ten-year rate of 9%. Western Reserve Life in Tampa offers 8.8% for one-, three- and five-year terms. When the guarantee period is up, an investor can automatically roll over for a new period at a new interest rate.

If you think interest rates are going to go higher and don't want to lock into the current rate, take a look at

Penn Mutual's contract, which adjusts its rate every month. It's similar to a money market fund, but with a lower yield. This month it's 7%.

Warning: Watch out for insurance companies that draw you in with high teaser rates and quickly reduce your rate when the guarantee period is up. Check out the insurer's record. When you roll over from one guarantee period to the next, be certain the insurer gives you the same rate that new customers get.

Also make sure your contract has a bailout clause. This allows you to cash out at no surrender charge if the insurer lowers your rate more than, say, 1% below the initial rate. Read the clause carefully, though. Some are so restrictive that they really offer no protection. And remember, you still get hit with the 10% Internal Revenue penalty, plus ordinary taxes, if you're under 59½.

Variable annuities have more sizzle than the fixed rate. You direct your money into a range of investment options—bonds, stocks, money market accounts, managed portfolios, even real estate deals—in much the same way as with a family of mutual funds.

Variables were hot during the bull market but have lost some appeal since the October 1987 market crash. In the first half of 1988 sales of annuities to individual investors were up 30% overall, sales of the variable type, down 17%.

Surrender penalties on all kinds of annuities—typically 6% of the withdrawal in the first year of the contract, winding down to zero by the seventh year—are being eased. One insurer even waives surrender fees entirely. This product, the Colonial Liberty/John Hancock Variable Annuity, is marketed by John Hancock Mutual Life Insurance Co. and the Colonial Group of mutual funds. How can they do it? By limiting brokers' commissions to 2%, as compared with 4% on the average annuity.

Most contracts, even those with surrender penalties, allow you to withdraw up to 10% of your assets before any charges kick in. One annuity, the Specialty Manager from Western Capital Financial in Los Angeles, lets you cash out up to 15% free.

Check your contract carefully, though. Some put limits on how often you can make withdrawals, and on the size of the withdrawal. For instance, Integrated Resources limits your withdrawal to 10% of the original premium only. On the other hand, Great-West Life & Annuity Insurance Co. has a cumulative withdrawal policy. If you don't withdraw 10% of the original premium in the first year, you can withdraw 20% in the second year, 30% in the third, and so on.

Ironically, it is the easing of surrender charges that is making Congress antsy. Yes, it gives consumers a better deal, and that has helped fuel annuity sales. But, warns Jack Harmon, a financial planner in Atlanta, "Congress meant for annuities to be savings vehicles for retirement. If more and more people start cashing out, it may very well impose more taxes."

Congress has tinkered with the tax treatment of annuities and single-premium life insurance policies before. Since 1982, for example, any loans against an annuity have been treated as withdrawals. If you're younger than 59½, you get hit with the same 10% penalty and income taxes. And last year Congress hit single-premium life insurance with the same penalties for borrowing. Before that time, you could borrow up to 90% of the value of your single-premium insurance contract and not pay tax.

But you should really approach annuities as savings vehicles, not as sources of ready cash. The longer you are in one, the more tax-deferred compounding you'll get, and the less you'll feel the upfront commissions and fees associated with investing in annuities. The expense ratios on variable annuities, for instance, average about 2%. That's twice the expenses on no-load mutual funds.

Three vital things to consider in shopping for an annuity: the record of the annuity, the stability of the issuer (ratings by Standard & Poor's, Moody's and A.M. Best are helpful), and exactly where your money goes. Executive Life Insurance Co. of New York, for example, invests a portion of its annuitants' money in junk bonds. But not every investor wants to invest in junk bonds.

The Variable Annuity Research & Data Service boils down performance and other information on most variable annuities sold in the U.S. For an up-to-date quarterly issue, send $149 to Financial Planning Resources, Inc., P.O. Box 161998, Miami, Fla. 33116.

Mail and the moving man

Some 40 million people change addresses every year, leaving in their wake the customary laments over broken crockery and a stream of mail that never quite seems to catch up. With luck and good management, the delay on forwarded first-class mail may run no more than three to five days. With bad management, the lag can run into weeks.

What is good management? To let all the important people in your life know what your new address is before you move. Most bank, insurance company, mutual fund and dividend-reinvestment-plan statements and dividend check envelope stuffers have change-of-address spaces on them. Fill them out and mail them.

It's easy to dismiss such precautions as just so much Mickey Mouse when you've already filed a change-of-address card with the local post office. It will forward first-class mail for 12 months and second-class mail (including newspapers and periodicals) for 60 days at no charge.

But the computer-monitored deadlines on forwarding are a sharp knife. Once the year is up, all first-class items—including dividend checks, dividend reinvestment plans, brokerage statements and the like—get bounced back to the sender, warns

Sal Di Marco

Mail-forwarding department, where mail is delayed days or more
If your dividend check is here, it's your fault.

U.S. Postal Service dead-letter office in Philadelphia
The shredder awaits if there's no clue to the sender.

Sal Di Marco

Barbara Moulding, assistant vice president for financial services at AT&T American Transtech. Moulding and the Jacksonville, Fla.-based company for which she works handle all of the transfers, dividend payments, tax forms and financial statements that go out to the 12 million shareholders of AT&T and the seven Bell companies that used to be its subsidiaries.

In effect, Transtech is itself one big post office. About 8% of the Bell shareholder list changes to a new address annually, including heliophiles, who with as little as one week's notice before the record date can arrange to have one dividend check sent south for the winter, one north for the summer and the others home for the rest of the year.

Continuous updating holds undelivered mail among Bell holders to what Moulding says is a minuscule "two-tenths of 1%." One reason may be the willingness of AT&T and the Bells to take a change of address by phone as well as by mail. No pain and one toll-free number (800-358-1133).

General Motors and Exxon, among the big companies, also take address changes by phone. Still others—IBM, Texaco and GE, for example—accept only written instructions. The same is true of mutual fund companies like Mutual Series Fund and Fidelity Investments. Look for addresses on shareholder mailers and shareholder contact phone numbers in financial manuals like Standard & Poor's listed stock reports. Keeping in touch may not save the crockery, but there's nothing like a smooth dividend stream to take some of the pain out of moving.—**Richard Phalon**

Dead letter

Dead letters can be lively stuff. Mail that cannot be delivered or returned ultimately winds up in one of seven regional depots. The mail is opened and scanned there for some clue to origin. Anything containing an estimated value of less than $5 is shredded. Anything over that value is put in storage for one year against possible identification and retrieval by the sender. Unclaimed contents are consigned to the Postal Service's monthly auctions. Among the objects so far sequestered in the New York office: bridal gowns, jewelry, cameras. Stripped wallets tossed into mailboxes by pickpockets or Good Samaritans also find their way into the dead-letter office. The most mystifying I.D.: that of an evidently irate girlfriend who misaddressed a [illegible] and a tarantula to a faithless [illegible].

Tax help

Question one: If you rent an apartment where you work in town but also own a country home where you spend weekends and summer, do you have to pay capital gains tax when you sell the house to buy another, more expensive one? And can the weekend home qualify for the $125,000 capital gains exclusion if you're over 55?

Two: You took out a home equity loan in 1988 for $150,000 to make some home improvements and also buy some tax-free bonds. How much of the interest is deductible?

Three: Should you lease or buy a car you need mostly for business?

These are three tricky tax questions that can easily be answered by consulting *The Arthur Young Tax Guide*, 1989 edition, published by Ballantine Books ($11.95). It is the most intelligible tax guide we've found, not only around tax time, but year-round, whenever you get confused about the ever changing tax code.

Answers: 1) Sorry, a country home is not considered your main home if you spend more time in a rental unit, even if it's the only home you own. No exemptions or exclusions. You must pay the full capital gains tax

when you sell and realize a profit, regardless of whether you are over 55 or buy or build another home.

2) All of the interest on the portion of your loan used for home improvements is deductible; but none of it used to generate tax-free income can be deducted—now or ever. And note: Effective after Oct. 13, 1987, there are limits on how much you can deduct on second mortgages or home equity loans used for other than home improvement, purchase or construction. Generally, the limit is now $100,000 for married taxpayers filing jointly.

3) As of 1986, if you buy and finance a car used for business, and you are not self-employed, you can no longer deduct the interest on a car loan. If you lease it, however, you can deduct all the lease payments (which are substantially equivalent to the depreciation and interest), subject to business use rules. But you lose some deductions if the car is used less than 50% of the time for business. And if the car's value exceeds $11,250, the excess over that amount is deemed to be additional income to you.—**W.G.F.**

Sotheby's Art Market Trends

Index sectors	Dec 1988	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years % change	Five years average annual % change
Old Master paintings	469	403	373	303	239	+16.4	+25.7	+54.8	+96.2	+14.4
19th-century European paintings	421	421	323	279	201	nil	+30.3	+50.9	+109.5	+15.9
Impressionist & Post-impressionist art	1,255	1,255	723	490	307	nil	+73.6	+156.1	+308.8	+32.5
Modern paintings (1900-1950)	1,138	1,138	757	512	282	nil	+50.3	+122.3	+303.5	+32.2
Contemporary art (1945 onward)	856	856	609	551	392	nil	+40.6	+55.4	+118.4	+16.9
American paintings (1800–pre-WWII)	1,076	958	871	698	556	+12.3	+23.5	+54.2	+93.5	+14.1
Continental ceramics	467	467	331	290	284	nil	+41.1	+61.0	+64.4	+10.5
Chinese ceramics	815	815	581	526	459	nil	+40.3	+54.9	+77.6	+12.2
English silver	388	388	381	343	219	nil	+ 1.8	+13.1	+77.2	+12.1
Continental silver	296	296	220	201	156	nil	+34.5	+47.3	+89.7	+13.7
American furniture	484	484	459	404	239	nil	+ 5.4	+19.8	+102.5	+15.2
French & Continental furniture	409	409	319	299	257	nil	+28.2	+36.8	+59.1	+9.7
English furniture	822	822	634	517	328	nil	+29.7	+59.0	+150.6	+20.2
Aggregate index*	740	727	512	403	286	+1.8	+44.5	+83.6	+158.7	+20.9

Basis: 1975 = 100 ($). ©Sotheby's 1989

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Index highlights

At the American paintings auctions in New York in December, American Impressionist works dominated, accounting for over half of dollar sales. "A Spring Morning" by Childe Hassam fetched $2.3 million, a record for the artist, and "Gravesend Bay" by William Merritt Chase brought $2.2 million, also a record.

Sales of Old Master paintings in London saw active bidding. A painting of the Holy Family by the 17th-century painter Bartolomé Esteban Murillo, consigned by the Dutch royal family, fetched $1.2 million, ten times its presale estimate and a record for the artist. A painting by Guido Reni made $1.5 million against an estimate of $129,000. Buyers were selective, however, spending high sums for only the best-quality works.

Sotheby's

Hassam's "A Spring Morning"

A series of sales of Chinese ceramics and works of art held in Hong Kong, New York and London marked a steady rise in prices for the very best in Chinese art. A few high-priced lots remained unsold, however, which attests to the current level of selectivity in the market.

Market highlights

Worldwide sales for Sotheby's and Christie's, the two largest international auction houses, totaled just under $1.6 billion in the fall season, a 53% increase over the same period in 1987. For 1988 as a whole, sales totaled over $3.2 billion, an increase of about 30%. The fall and full-year numbers are records for both houses.

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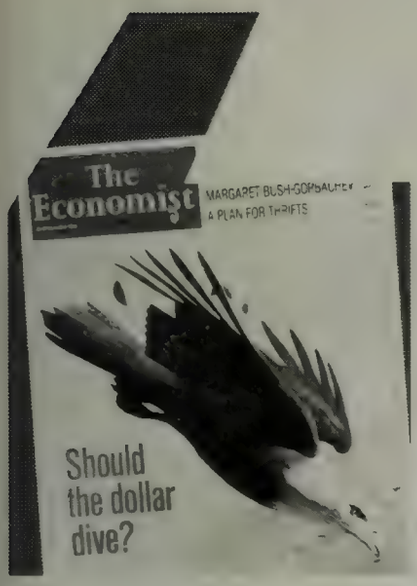
43. St. Louis Convention a Visitors Commission



"NOT ALL LBOs HAVE HAPPY ENDINGS."

From The Economist, on corporate performance after leveraged buy-outs.

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Not long ago television station prices could only go up. Today buyers are notable by their absence, and it seems that station prices, at least for now, can only go down.

Negative ratings

By Peter Newcomb

NEXT TIME some friend or stockbroker insists that the laws of gravity and of supply and demand do not apply to some investment, remind him or her of television stations—a can't-miss investment concept if ever there was one.

Lots of smart people believed. In October 1987, for example, broadcasting entrepreneur George Gillett purchased six television stations, five of them network affiliates, in partnership with leverage specialists Kohlberg Kravis Roberts & Co. Price tag? A hefty $1.3 billion, or some 13 times year-ahead cash flow; the deal was mostly financed by high-yield bonds sold by Drexel Burnham Lambert. A year earlier Knight-Ridder bought three stations from Gannett for $160 million, at 12 to 13 times cash flow.

It now looks as if Gillett and Knight-Ridder bought at the very top.

Brokers and analysts figure that over 50 of the country's 650 network-affiliate TV stations are either officially listed or are rumored to be on the auction block. Market value? Over $2 billion. Potential buyers are not besieging the sellers with rich offers.

George Gillett admits that he is trying to sell three of the affiliate stations, most of which are in big cities, that he bought during 1986-87. Rumored to be close to a sale is Gillett's WSMV-TV, the affiliate in Nashville. Gillett remains confident that he will find people willing to pay strong multiples. Perhaps. Meanwhile, his junk bonds are at discounts and Gillett may be having trouble servicing his debt. Brokers say he's asking for 17 times cash flow, and he won't be able to get anywhere near that. Advises Shearson Lehman Hutton investment banker Frederick Seegal, "When the market's 12, you don't ask 17 on the expectation you can get 13."

Knight-Ridder is trying to sell all eight of its TV stations. A Knight-Ridder spokesman says the company wants to concentrate on its core business, publishing. Whatever the reason, it's clear that Knight-Ridder could take a big hit on the stations it bought in 1986. Richard Blackburn, whose Blackburn & Co. brokered nearly $500 million in media transactions last year, says of TV station buyers and sellers: "They're dancing with each other, but no one is going home with anybody." Unable to get a decent offer for its Hartford station, WVIT-TV, Viacom Inc. recently pulled it off the market.

From the potential buyer's standpoint, there are two parts to the prob-

Susan Blubaugh

Mixed bag

The six broadcasters listed below are among the more pure-play television station companies. While the market values of big Capital Cities/ABC and cash-rich CBS are holding up well, the stocks of newcomers Price Communications and TVX were trading near their lows until very recently.

Company	No of stations	Cash flow latest 12 mos ($mil)	Market value ($mil)	Market value/ cash flow	Recent price	Price range (52 weeks)	
Capital Cities/ABC	8	$372	$6,437	17	356½	369¾	297
CBS	4	504	4,072	9	174⅜	182¾	146
Chris-Craft Industries	7	22	499	23	22⅛	24⅜	16⅞
Great American Communications	5	46	294	7	9⅜	12¾	7¾
Price Communications	9	13	47	4	7⅜	10⅝	5¾
TVX Broadcast Group	9	–50*	9	0.2	3⅞	4¼	1¼

* Estimate.

Source: Media General, via Lotus CD Investment.

lem: accurately projecting cash flow, and paying an appropriate multiple for that income. "Declining audiences, the threat of nonnetwork TV and the slumping national advertising market don't mean that television is not a good business," says Communications Equity Associates Chairman Rick Michaels. "But it's not a good business at 15 times cash flow." Michaels sees multiples settling down between 9 and 10 times cash flow, maybe as low as 8 for small markets.

There is little in the immediate picture that would encourage buyers to pay high multiples. Most media people are forecasting single-digit advertising growth rates for the coming year. Sharon Armbrust, senior analyst at media analysts and investors Paul Kagan Associates, estimates that broadcast network advertising for 1989 will be up only 5% over 1988, to $9.7 billion; that compares with the 10% growth rates common during the 1970s and early 1980s. Armbrust further notes that the networks' combined prime-time viewership has dropped from 90% in 1978 to a projected 60% this year.

"We're now in a down cycle [in TV station prices]," says Shearson Lehman's Seegal. "Some of the financial institutions that used to be very aggressive in lending to broadcasting are saying, 'Wait a second, maybe we better rethink some of our aggressiveness.' " As in real estate, so in broadcast: no financing, no deals.

Perhaps the darkest cloud overhanging the stations is network compensation. Since the inception of network-sponsored programming, networks have paid their affiliate stations for airing the programs. For most stations, compensation brought in 4% to 5% of the stations' total revenue. For smaller, more remote markets, this number could double. Network compensation was bottom-line pure profit for the affiliate stations—no expense, no overhead.

Now the networks are reconsidering the example set by WPBF-TV, ABC's affiliate in West Palm Beach. In January this year, WPBF became the first affiliate to pay its network for programming. "I am amazed networks haven't gotten wise to it years ago," says Eric Strauss, a vice president for Henry Ansbacher, a media mergers and acquisitions firm. Potential station buyers, he adds, "are going to have to wonder what this means to them over the long term."

As if all this isn't bad enough, audience viewing habits are changing. Last fall's writers' strike further eroded network audiences. Independent stations, on average, now account for about 25% of all TV viewing; ad-supported cable accounts for another 12% or so. In the November sweeps, when the networks do their utmost to win viewers, independent stations won a 23 share; each of the three networks won a 20 share.

Are the networks themselves in trouble? Not really. They have other things going for them. Under Laurence Tisch, CBS Inc. sits on $1.5 billion in cash, from selling off assets. Cap Cities/ABC has hedged some of its loss in network viewership through ESPN, the fast-growing sports cable station. For its part, NBC is making serious moves into cable; in April it will air CNBC, a consumer news and business channel. As regards their basic business, Kagan Associates' Armbrust reminds that the networks still offer major advertisers the ability to reach the mass audience. "Broadcast TV," she says, "still is the only place in town to do major bulk advertising." But at a price. Armbrust adds: "Remember, it costs billions of dollars to program these networks."

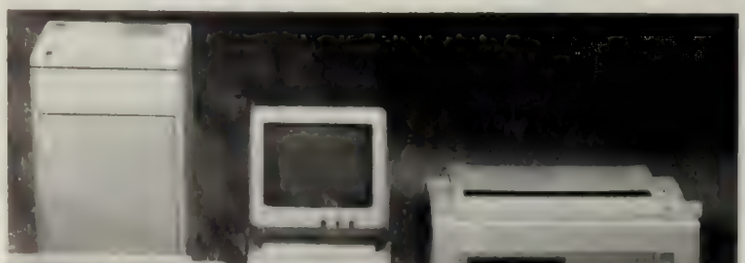
Where the news is almost universally gloomy, as now seems to be the case in TV station land, the intelligent question to ask is: Should I buy? Now? Steven Rattner, a managing director at Morgan Stanley & Co., is optimistic. He figures the doom and gloom has been fully factored into station prices. "It's a great time to buy," he says.

Gulf & Western Corp. would seem to agree. Its Paramount Pictures subsidiary has just bought an option to purchase a 79% stake in TVX Broadcast Group. The ultimate price, between $125 million and $180 million, will depend on how well the stations do over the next four years. Such prudence squares with analyst Eric Strauss' thinking. "When you buy at 9 times cash flow, you can take on some uncertainty and you can take some chances," says Strauss. "When you buy at 14 times, you better know things are growing in double digits."

Stanley S. Hubbard is the chief executive officer of family-owned Hubbard Broadcasting, Inc., a multistation outfit based in Minneapolis. At 55, he has lived through—and profited from—many broadcast property cycles, and he thinks there is still plenty of air in station prices even now. "People have paid multiples that are ridiculous," booms Hubbard. "I see multiples going down to eight. I'd wait a bit to buy."

It's an old story. One-decision growth stocks. Residential real estate in Greenwich, Conn. TV stations. When anyone tells you "prices can only go up," smile politely and keep your wallet in your pocket. ■

How to pick a
when everyone i



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Faces
Behind the Figures

Edited by Jason Zweig

Pikers need not apply

John Kluge couldn't wait to get back into leveraged buyouts, and who can blame him? After all, he became the second-richest man in America (net worth: $3.2 billion) after taking Metromedia Co. private in 1984. So last June, Kluge, 74, and his executive vice president, 46-year-old Stuart Subotnick (whose 2.6% sliver of Metromedia makes him just shy of a centimillionaire), plucked $100 million out of petty cash to start an LBO fund. John Perkowski, 40, ex-head of investment banking at PaineWebber, joined as general partner of Kluge Subotnick Perkowski & Co.

Kluge was so eager that in December—before any outside investors even signed on—the fund agreed to put up $200 million in cash and debt for the buyout of two units of Connecticut-based Stanadyne, Inc., which make valve lifters and fuel injectors for diesel engines.

Kluge still wants another $900 million from outside investors to cap the fund at $1 billion. It will be a private placement—pikers with less than, say, $15 million to spare need not apply—and Kluge says he is in no hurry: "We have the luxury of time."

Kluge's new firm has already looked at more than 100 transactions. The fund has ruled out hostile deals, but will consider acting as a white knight for companies under threat of takeover. The partners will shun buyouts of huge industrial companies with large capital requirements.

Kluge also claims to have no interest in the kind of asset-stripping that, in the Metromedia deal, made him very rich and that now prevails in leveraged buyouts. Why? With changes in the tax code and the fading of the bull market, Perkowski explains, "It's harder to count on making money through financial maneuvers alone. We want to create value by building businesses, not by tearing them apart."—J.Z.

John Kluge and John Perkowski
"We have the luxury of time."

An odd sort of takeover play

An agency of the federal government is not often put "in play," but that is exactly what has happened to the Federal Asset Disposition Association. That's the agency that manages assets of shuttered thrifts. FADA has $3.8 billion in real estate assets under management and $13 million in cash on its balance sheet.

A year ago, Alexandria, Va.-based real estate asset manager Joseph Robert proposed a buyout of the agency to its parent, the Federal Home Loan Bank Board. Since then, the Robert M. Bass Group, Integrated Resources and others have made inquiries. Response from the Bank Board? Silence.

Manuello Paganelli/Woodfin Camp & Assoc

Joseph Robert of J.E. Robert Cos.
Putting the feds in play.

Now there are rumors that FADA's chairman—ex-tire salesman Gerald Carmen—has hired First Boston to help him put together his own offer. (Carmen denies the rumors.) In December Robert came back with a second expression of interest.

Why all the attention? Congress is under pressure to clean house in the thrift industry. And FADA has plenty to commend it. Contracted to manage nearly all the assets in receivership, it made a $6 million profit last year, and has a federal savings and loan charter. Once in private hands, FADA could presumably be run as a thrift, collecting deposits and making loans.

Robert, 36, has much experience managing the sorts of assets FADA has on its books. A Golden Gloves light heavyweight, he began by sweeping floors in Boise Cascade's real estate offices in Maryland as a teenager. By the mid-1970s he was managing defaulted condos in Florida and the Washington, D.C. area. In 1984 Robert won FSLIC's first contract to manage the assets of busted savings and loans. Last year he and Ford's First Nationwide, one of the largest thrifts in the U.S., formed a joint venture to manage decaying S&Ls. All this would serve him well in a takeover of FADA's assets.—John R. Hayes

Epic task

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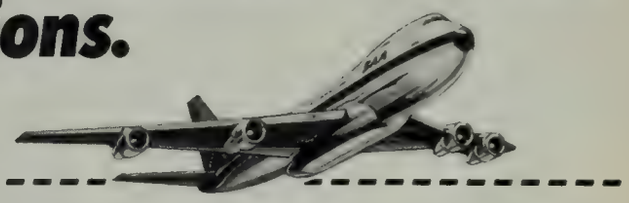

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Karen Kasmauski

Stuart McFarland of Skyline Financial Services
Salvaging dreams from an American nightmare.

Faces
Behind the Figures

land, 41, is chief executive of Skyline Financial Services Corp. in Falls Church, Va., the largest single-family housing landlord in the nation.

How did Skyline end up managing nearly 9,000 homes, the majority in hurting places like Texas, Louisiana and Colorado? The properties are mainly the wreckage of Equity Programs Investment Corp., a high-flying operation that defaulted on $1.4 billion of home loans in 1985. EPIC's creditors, mostly thrifts, created Skyline in May 1986 to manage and sell off the properties.

Unlike U.S. government agencies that leave foreclosed homes vacant while scrounging for buyers, McFarland uses rentals to stabilize neighborhoods and cleverly converts renters to buyers by crediting a portion of their rent checks toward down payments. So far, Skyline has sold 3,775 EPIC units.

McFarland hopes to make Skyline profitable by 1991, when EPIC's workout should be complete. At that point, the creditors plan to sell Skyline. If it meets the workout plan's goals, management will get a 15% to 20% stake. Already McFarland is peddling Skyline's services to other lenders swamped by the worst wave of foreclosures since World War II. He estimates that 150,000 foreclosed properties sit unsold in private lenders' portfolios and that another 80,000 to 160,000 will fall into lenders' hands by 1992.

McFarland already manages nearly 1,000 non-EPIC homes and figures he could handle 10,000 more without adding overhead. "People think foreclosure, they think rats, they think inner city," he says. "But this is all-American housing in heretofore prime markets. It has great future value. If someone would lend me the money, I'd buy the whole damn portfolio myself."—**Janet Novack**

Novel theories

The year 1990 is almost here, and hyperinflation, massive unemployment and a plague of business failures don't seem much closer than they did in 1985 when Ravi Batra became rich by predicting economic doomsday. His books *The Great Depression of 1990* (published in 1985) and *Surviving the Great Depression of 1990* (published last September) have sold nearly 2 million copies combined.

Even though events have proved that he was full of hot air, Batra, 45, is still trying to exploit the rich lode of gloom that he discovered. He is writing a novel in which all his predictions can come true, unhindered by economic reality. Tentatively titled *Eternal Hope*, the book has the streets of America seething with jobless rioters who even attack the homes of the rich. The problem is solved by federal adoption of a semisocialist program involving reversals of deregulation, a ban on leveraged buyouts and something called "industrial democracy," in which the government buys public companies and turns the shares over to employees. Says Batra: "The employees own shares and operate the factories, and they can still hire M.B.A.s to run things for them."

If people want to read this kind of garbage, publishers will no doubt publish it. What is a bit shocking, though, is that this discredited snake-oil salesman is a tenured professor of economics at Southern Methodist University in Dallas.—**J.Z.**

Robbie McLaran

Ravi Batra, doomsayer
With a novel in progress, all his predictions can come true.

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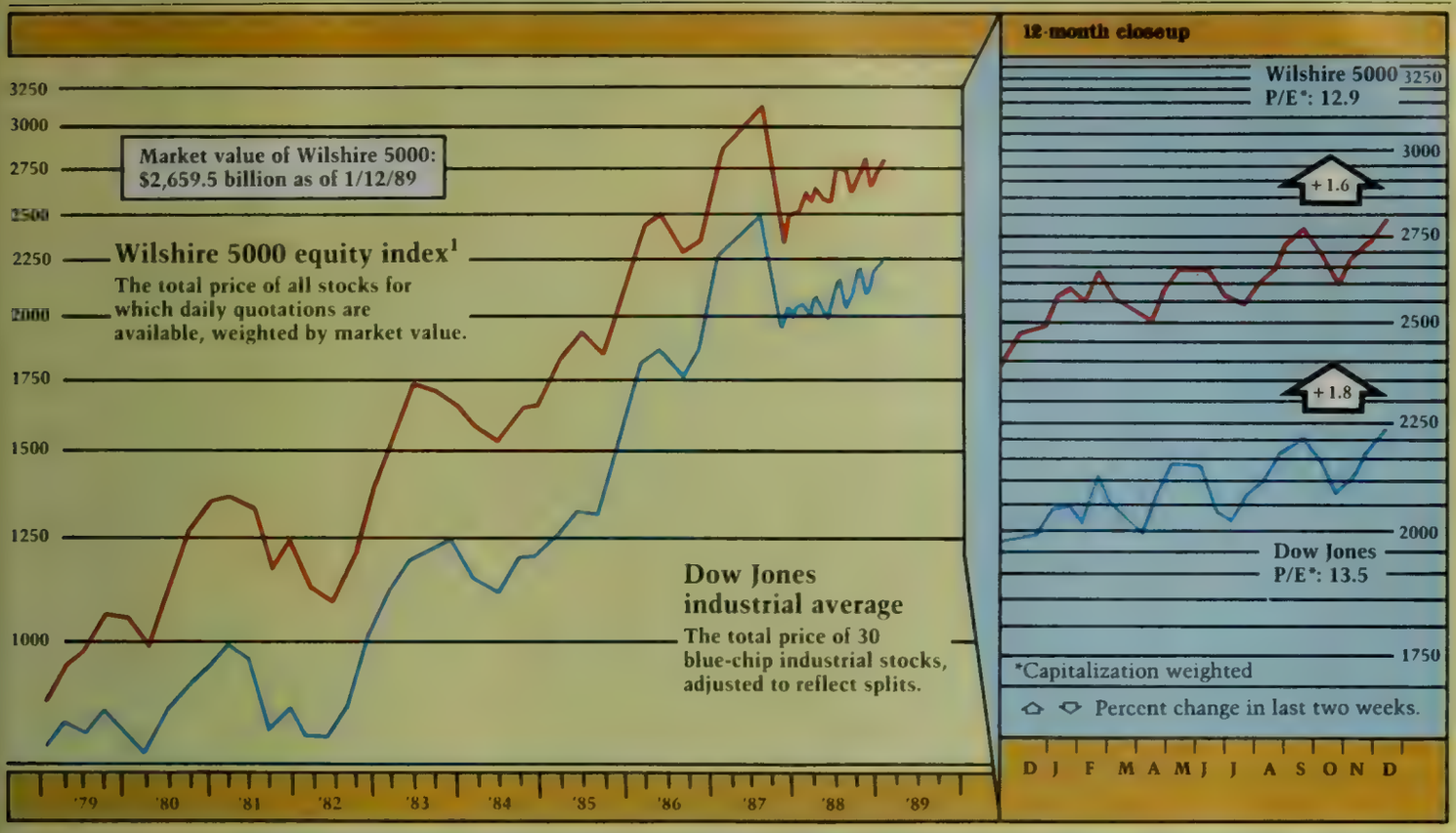
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Only some bulls are back. The Dow industrials' push above 2200 on Jan. 11 brought it to a postcrash high. But the market for initial public offerings remains quiet. Over the last 30 days the number of new issues as a percentage of stocks on the New York Stock Exchange was only 1.5%, not much of an improvement over the October 1988 postcrash low of 1.3%. In March of 1987, the good old days, initial public offerings represented 5% of New York Stock Exchange-listed shares.

For the most recent two weeks the Dow advanced 1.8%. Stocks listed on the American and over-the-counter markets did even better, rallying by 3.7% and 2.1%, respectively. The energy and transportation sectors fared the best, while the technology and utility groups lagged behind. Over the last 12 months the American Stock Exchange composite has been the best performer, with a 19.4% increase, versus gains of under 16% for the NYSE and Nasdaq.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.5	3.0	4.2	3.3	7.0	3.8
in last 52 weeks	15.5	15.1	16.0	15.4	19.4	15.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	4.1	7.9	14.5	1.9	6.2	5.2	2.7	8.7	9.3	4.0	3.7	8.8
in last 52 weeks	17.5	48.1	71.3	20.7	26.8	29.6	18.0	69.9	54.0	24.9	21.2	37.7

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

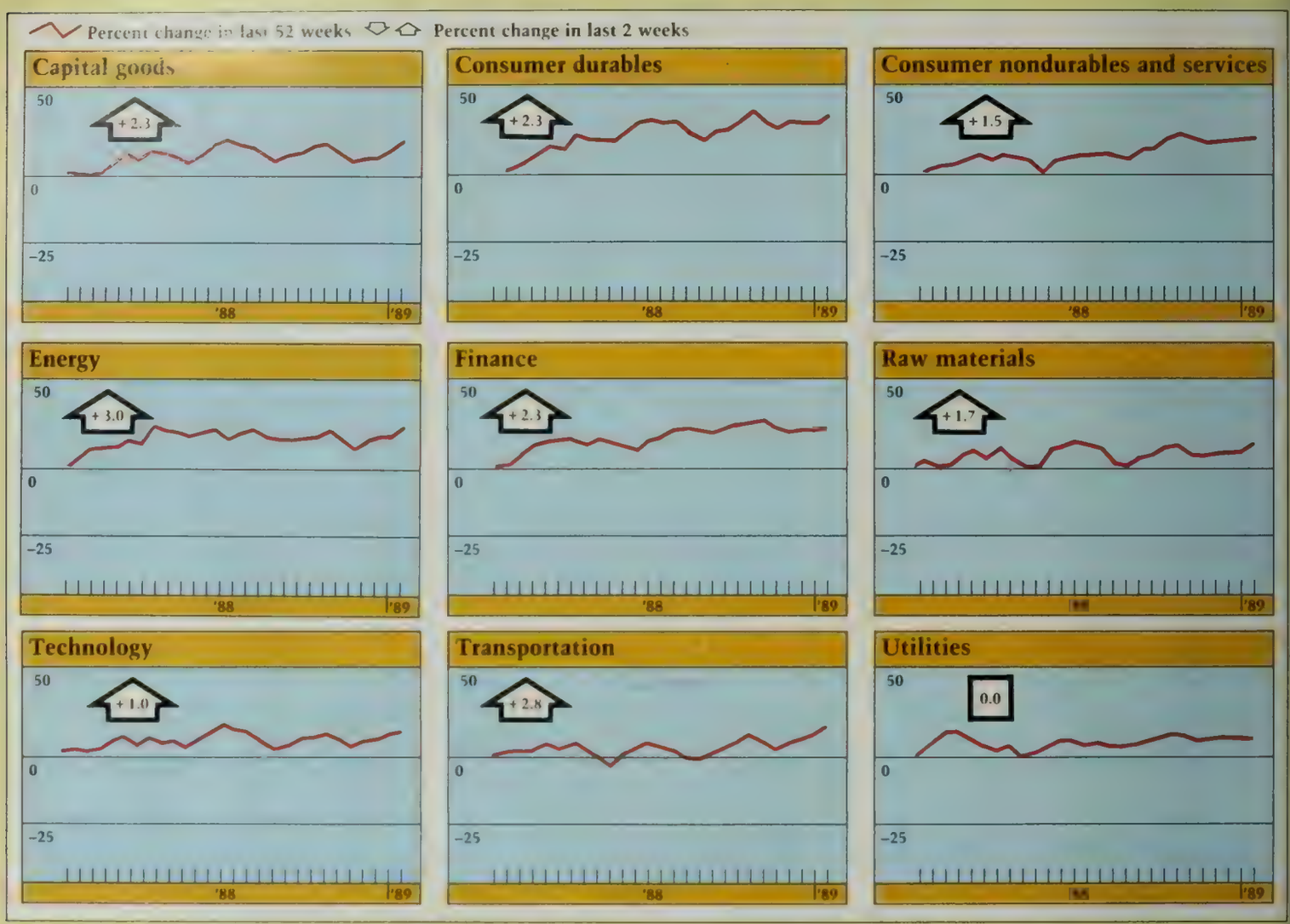
Note: All data for periods ending 1/12/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Wall Street wants culture. Consumer nondurables was one of the weaker groups over the last two weeks, but one stock in this group, Sotheby's Holdings, had the best performance of any major issue. Sotheby's Holdings, which auctions art and other collectibles—these are nondurable?—advanced 23%, to 24½. Salomon analyst Harvey Katz estimates Sotheby's Holdings' 1988 earnings at $2.20, and he forecasts 1989 profits of $2.60 per share.

Energy stocks showed the best two-week performance, with a gain of 3%. McDermott International, Freeport-McMoRan, American Barrick Resources and Gulf Canada all advanced more than 10% while Eastern Gas & Fuel, Noble Affiliates, Kerr-McGee, Sun Inc. and Anadarko Petroleum posted small declines.



What the Analysts Think

Behind the averages. The major sectors showed little overall change in 1989 earnings estimates over the last two weeks, but analysts made sharp revisions in some individual forecasts. National Intergroup had the largest estimate cut for a major company as analysts scaled back their 1989 projection from $1.60 to $1.08.

Forecasting the Forbes Sales 500

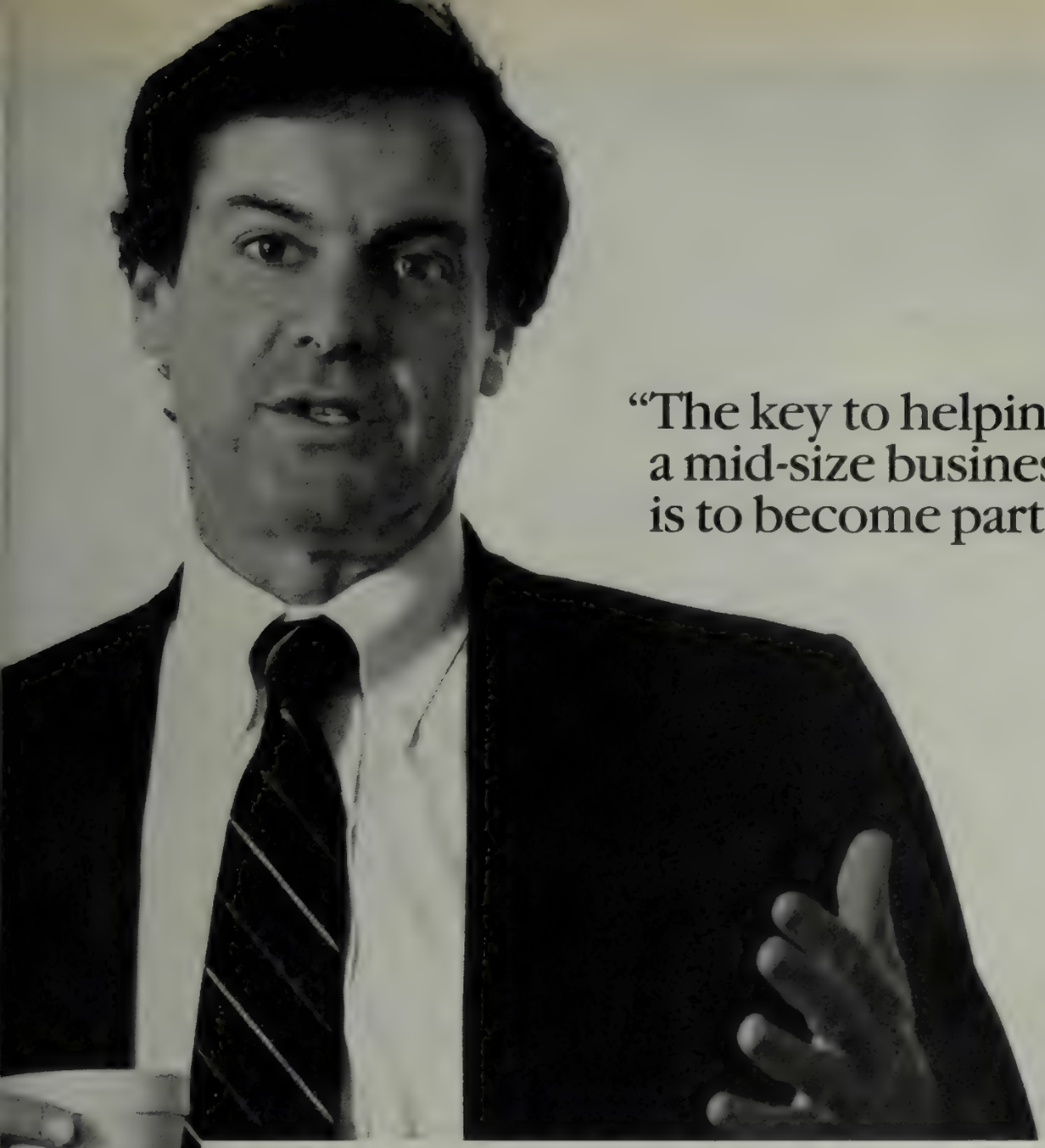
Performance period	Average earnings per share	P/E
latest 12 months	$3.25	12.2
1989 estimates	3.96	10.0
1990 estimates	NA	NA

NA: Not available

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Energy	$3.42	11.4	0.25%	0.28%
2	Consumer durables	4.84	11.7	0.23	1.06
3	Utilities	3.12	9.8	0.18	0.13
4	Transportation	2.87	9.7	–0.04	0.38
5	Capital goods	3.05	12.6	–0.05	0.68
6	Consumer nondurables	2.77	12.7	–0.14	–0.24
7	Raw materials	3.48	9.0	–0.14	0.19
8	Finance	3.76	7.6	–0.19	–0.96
9	Technology	3.23	10.6	–0.28	–0.47

[illegible] projections are cap[illegible] weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers [illegible] System (IBES), a service of Lynch, Jones & Ryan, a New York based brokerage firm.

[illegible] periods ending [illegible] N.A. Prepared by Wilshire Associates, Santa Monica, Calif. IBES, a service of Lynch, Jones & Ryan, New York.



"The key to helping a mid-size business is to become part of it."

John Keyser, Middle Market National Practice Partner, on serving mid-size companies:

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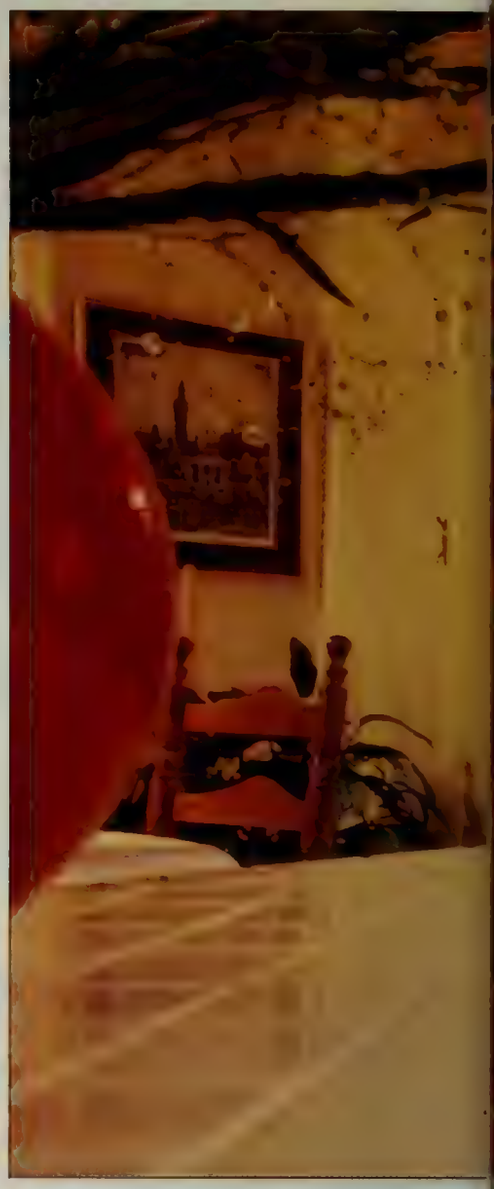
Should investors ignore a portfolio manager's reputation and buy a closed-end fund just because of its hefty discount? Stanislaw Bednarski thinks so.

The almost-perfect-market thesis



By Jonathan Clements

When Stanislaw Bednarski defected from Poland in 1964, the government stripped his father of his civil engineering job and demoted his mother, a top-ranking juvenile court judge. Recalls Bednarski, "She was told, 'If you can't bring up your own son properly, then how can you be expected to rehabilitate others?' "

If bringing up your children properly means teaching them the glories of socialism, the elder Bednarskis certainly did fail. (Bednarski's father eventually found a less prestigious civil engineering job, while his mother languished as a junior judge.) Their son has become not only a capitalist but, horror of horrors, a finance capitalist. He makes a living managing his own stock portfolio.

Stanislaw Bednarski is a follower of the efficient market thesis, which holds that at any given time stocks are accurately priced because they always reflect all currently available information. The theory implies that no one can consistently beat the market except by sheer luck. But he is a slightly heretical follower because he thinks there is a glaring exception, a spot where the market does not price stocks efficiently. The inefficiency lies, he says, in closed-end investment companies. Why do these funds so frequently trade at hefty discounts to the net asset value of the funds' investments?

"This is an inconsistency I have a hard time explaining," admits Bednarski. "I am looking for inefficiencies in the system, and here I think I find inefficiency. I may be deceiving myself, but so far so good."

Though Bednarski dabbled in stocks during the stock market boom of the late 1960s, he didn't turn to closed-ends until late 1974, just as the market was hitting bottom. He had received an offer to work as an engineer with Aramco in Saudi Arabia, so he sold his house and invested the proceeds in Highland Capital, a closed-end fund that has since been liquidated. Trading in and out of Highland, Bednarski reckons he quadrupled his money. Today he boasts a heavily margined portfolio with $8 million of fund shares, $3 million of that paid for with borrowed money.

Bednarski, 50, retired two years ago from a $60,000 job designing gas turbines for General Electric. Today he closets himself in his Schenectady, N.Y. home, very much the frugal do-it-yourselfer. He avoids full-service brokers, does his own tax returns and even files his own Schedule 13Ds, which must be sent to the Securities & Exchange Commission whenever an investor owns more than 5% of a stock issue.

Bednarski's 5% holdings include 95,000 shares in Franklin Holding Corp. (American Stock Exchange, 8¾), a closed-end fund that's now turning itself into an operating company. As of September 1988, Franklin had gross assets of $25 million, including $14 million in cash and $9 million in relatively illiquid investments such as mortgage loans to and equity stakes in private companies. Net assets are $16 million, or $15.51 a share. Bednarski thinks that Franklin's stock, which trades at a 44% discount to net asset value, will rise closer to breakup value once the company starts making acquisitions.

More recently, Bednarski bought 6.9% of Counsellors Tandem Securities, a closed-end fund specializing in utility stocks. He reckons Counsellors common shares should rack up 13% a year between now and October 1996. At that time, the fund will be liquidated or converted into an open-end fund, so either way shareholders will be able to realize the full net asset value of the fund's investments.

Here's how Bednarski gets that 13% figure. Because he believes in an almost-perfect market, Bednarski thinks Counsellors' stock pickers will do about as well as the market, say 10% a year. That means the fund's investments will actually return 8.6%, because Counsellors has a steep 1.4% expense ratio.

So how do you hike the return from 8.6% to 13%? Two ways. First, the fund now trades at a 23% discount to net asset value, a discount that will

Gary Gold

Closed-end fund investor Stanislaw Bednarski
"I may be deceiving myself, but so far so good."

disappear under the mandatory open-ending provision. Second, the fund is leveraged, on very favorable terms. Of the $86 million in assets, $44 million is financed by a preferred issue bearing a miserly 7¼% dividend rate, less than the expected 8.6% return on the portfolio. Put it all together and, *voilà*, a 13% return.

For every $100 in common net asset value, Counsellors has a portfolio of $206 and a preferred claim on the portfolio of $106. Assuming that the common shareholders reinvest their dividends at net asset value, the portfolio should grow to $310 in 1996, of which $204 would belong to common holders. But remember: They bought their $100 of assets for only $77, so they've nearly tripled their money.

Bednarski's biggest stake is 300,000 Quest for Value Dual Purpose Fund income shares. A dual-purpose fund issues two classes of stock. The income shares receive all income thrown off by the fund's assets, while the capital shareholders stand to benefit from any increase in the fund's net asset value.

If you believe what you read in the newspapers, Quest for Value's income shares trade at a slim 9% discount, while the capital shares have slumped to a 28% discount. Bednarski, though, doesn't take those numbers at face value. Why? Because they are computed as if the fund were to liquidate tomorrow. In fact, the fund will liquidate in 1997. In the meantime, the income holders collect not only the income generated by their own share of the assets but also the income generated by the capital holders' share. While the income holders get cash dividends, the capital holders are forced to reinvest their capital gains, maintaining a fat pool of assets that the income holders will be living off for eight years.

Who will do better, the capital holders or the income holders? To answer this question you have to foresee the portfolio manager's strategy. Investment in high-yielding, low-growth securities helps the income holders. Investment in low-yield, high-growth securities helps the capital holders.

Making some assumptions about what sorts of stocks and bonds Quest for Value will buy, Bednarski calculates that the income holders will do slightly better, with a 13%-a-year return through 1997, against less than 12% for the capital holders. (It could happen. John Neff's original Gemini, which terminated in 1985, returned 14% annually to capital shareholders but 15.4% to income shareholders.) Income shares are, moreover, less volatile. This much Bednarski can count on: Since the Quest income holders are guaranteed an 87½-cent annual dividend and an $11.60 liquidating payout in 1997, their minimum annual return is 9.5%.

Does Bednarski buy individual stocks? Occasionally. "Often I am tempted," he concedes. "I see a stock that I think is overlooked. But nothing is overlooked—except closed-end funds." ■

Stock and balanced funds

The hot-funds lists are out already. These are the newspaper listings of which funds went up the most last year or last quarter. What follows in this semiannual evaluation is rather different. FORBES rates funds separately in bull and bear markets. Any aggressive fund can do well in an up year like 1988, but it takes talent to do that and still get an honor grade in bear markets.

If you want to get good recent performance with a proven ability to hold up in bear markets, look for a fund that scores an A in down markets and was up 25% or more last year. There are five: two of the Mutual Series portfolios, Mutual Benefit, Vanguard Windsor and Vanguard High-Yield Stock.

This year's semiannual survey (our larger annual survey is published in September) has been expanded to 419 equity funds. We include all those that have more than $2 million in assets and have been around for at least two market cycles, as determined by the Standard & Poor's 500 average. The last two up-and-down cycles cover the period July 31, 1982 to Dec. 31, 1988. Funds that date back to Feb. 28, 1978 are rated over three market cycles.

Foreign funds are rated over market cycles as measured by the Morgan Stanley Capital International dollar-adjusted index for Europe, Australia and the Far East. The foreign rating periods now start at Oct. 31, 1980 instead of Nov. 30, 1977, a shift that hurt gold funds, which did best in the late 1970s. For example, Franklin Gold Fund dropped from from a B to a D.

Data for the tables come from the Forbes/CDA Equity Fund Evaluator, a microcomputer-based screening and reporting package. Lipper Analytical Services also assisted in producing this report.

Our taxable bond and preferred fund report begins on page 160. The tax-exempt bond listing begins on page 162.

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
ABT Growth & Income Trust	B	D	19.4%
ABT Utility Income Fund	D	A	15.5
*Acorn Fund	B	B	24.4
*Adams Express	D	B	12.9
Affiliated Fund	C	B	12.6
*Afuture Fund	D	D	1.5
Aim Convertible Securities	D	D	10.9
Alliance Balanced Shares	C	B	16.3
Alliance Dividend Shares	D	B	16.5
Alliance Fund	C	C	16.4
†Alliance Global—Canadian Fund	D	C	30.9
†Alliance International Fund	A	C	33.0
Alliance Technology Fund	A	D	0.6
AMA Growth Fund—Classic Growth	D	D	10.6
Amcap Fund	B	B	8.9
American Balanced Fund	C	B	12.8
American Capital Comstock Fund	C	A	14.7
*American Capital Convertible Securities	A	B	17.8
American Capital Enterprise Fund	A	D	12.0
*American Capital Exchange Fund	C	C	18.2
American Capital Harbor Fund	A	D	16.7
American Capital Pace Fund	B	A	12.1
American Capital Venture Fund	D	B	3.6
American Growth Fund	D	B	8.4
American Investors Growth Fund	D	F	18.5
American Leaders Fund	D	A	12.1
American Mutual Fund	D	A	12.8
American National Growth Fund	B	C	6.0
American National Income Fund	D	A	10.0
AMEV Capital Fund	A	C	5.2
AMEV Fiduciary Fund	A	C	7.0%
AMEV Growth Fund	A	C	7.8
Amway Mutual Fund	D	D	6.6
*Analytic Optioned Equity Fund	D	A	15.6
*Armstrong Associates	C	C	15.7
*†ASA Limited	D	D	–31.7
Axe-Houghton Fund B	B	D	8.9
Axe-Houghton Stock Fund	A	F	–0.2
*Babson Growth Fund	C	C	15.9
*Baker, Fentress & Co	B	C	13.2
*Bancroft Convertible Fund	B	F	3.5
*Beacon Hill Mutual Fund	D	B	4.3
*Bergstrom Capital[1]	B	A	16.7
Boston Co Capital Appreciation Fund	C	B	19.0
Bridges Investment Fund	C	C	–4.2
Bull & Bear Capital Growth Fund	B	D	13.8
Bull & Bear Equity-Income Fund	D	B	15.4
†Bull & Bear Gold Investors	D	D	–13.5
*Capital Exchange Fund	B	C	5.7
Cardinal Fund	C	B	16.6
*Castle Convertible Fund	D	B	10.1
*Central Securities	B	C	15.6
*Century Shares Trust	D	A	15.6
Charter Fund	B	C	3.9
*Chestnut Street Exchange Fund	B	B	15.4
Cigna Growth Fund	C	C	10.1
Colonial Equity Income Trust	C	B	18.5
Colonial Fund	B	C	21.6
Colonial Growth Shares Trust	B	C	25.2
Colonial Strategic Income—Diversified	D	B	16.6

*[illegible] and/or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 [illegible] up market periods from [illegible]/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Claremont Capital

Source: Forbes/CDA Equity Fund Evaluator on diskette

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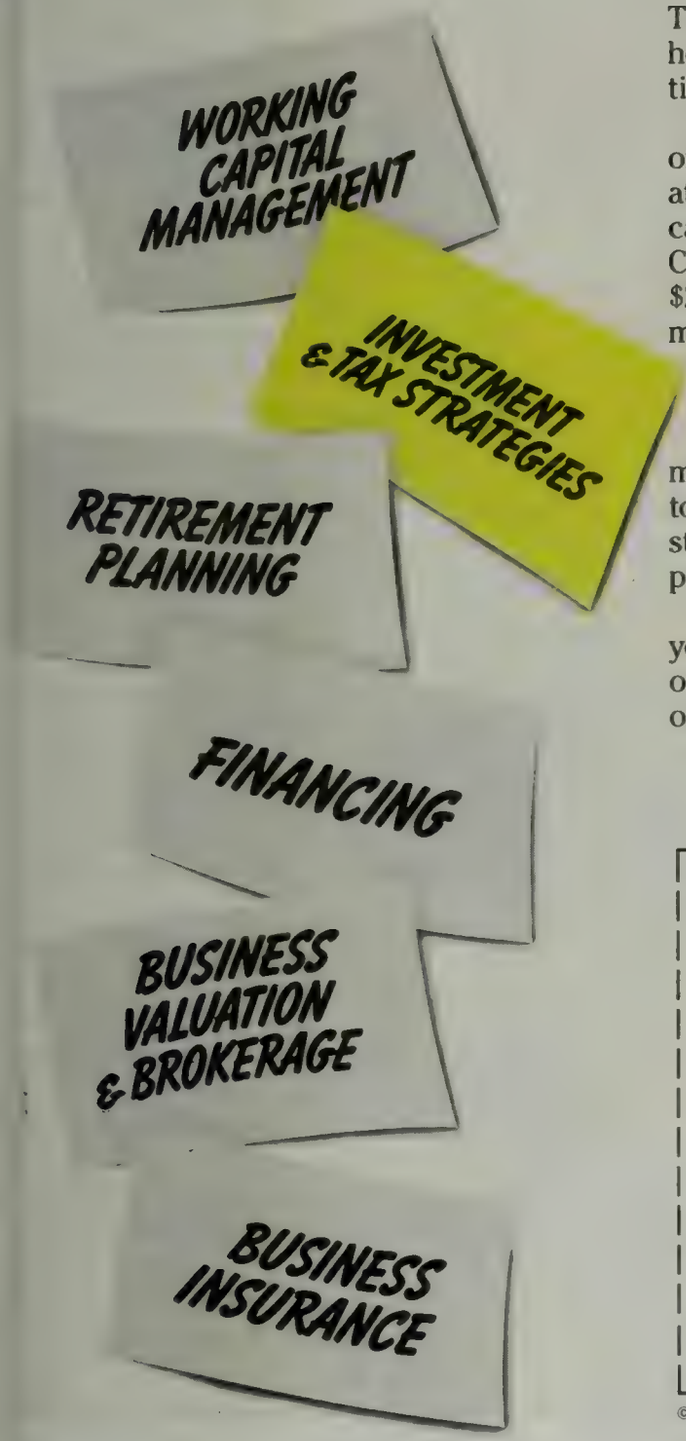

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Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*Columbia Growth Fund	A	C	10.8%
Commonwealth Indenture A & B	D	A	3.7
Commonwealth [illegible]	D	A	3.2
Composite Bond & Stock Fund	C	C	14.7
Composite Growth Fund	C	A	18.6
Constellation Growth Fund	A+	F	16.3
*Copley Fund	D	A	19.9
Country Capital Growth Fund	C	C	13.7
Country Capital Income Fund	D	A	6.2
Criterion Income—Commerce Inc Shares	C	C	6.5
Criterion Pilot Fund	C	D	0.9
Criterion Sunbelt Growth Fund	C	C	6.8
Dean Witter American Value Fund	B	D	10.8
Dean Witter Dividend Growth Secs	C	A	18.8
Dean Witter Natural Resource Dev	D	C	14.4
†Dean Witter World Wide Investment	D	A	14.1
Delaware Group Decatur Fund—I	D	A	19.9
Delaware Group Trend Fund	C	B	26.6
*Depositors Fund of Boston	B	D	12.8
*Diversification Fund	B	C	9.7
Dividend/Growth—Dividend	D	B	4.4
*Dodge & Cox Balanced Fund	B	D	11.6
*Dodge & Cox Stock Fund	A	B	13.8
Drexel Burnham Fund	C	B	11.8
*Dreyfus Convertible Securities Fund	C	C	22.6
*Dreyfus Fund	D	B	8.7
*Dreyfus Growth Opportunity Fund	A	D	17.9
Dreyfus Leverage Fund	B	C	1.8
*Dreyfus Third Century Fund	B	C	23.2
Eaton & Howard Stock Fund	D	B	14.9
Eaton Vance Growth Fund	B	B	8.5
Eaton Vance Income Fund of Boston	D	A	15.2
Eaton Vance Investors Fund	C	C	10.7
Eaton Vance Special Equities Fund	D	B	11.2
Eaton Vance Total Return Trust	C	A	12.0
*Energy Fund	C	C	16.5
*Engex	A+	D	13.8
Enterprise Group—Growth	C	B	19.7
*Equity Strategies Fund	C	C	37.2
*Evergreen Fund	A	C	22.9
*Evergreen Total Return Fund	C	A	15.8
*Exchange Fund of Boston	B	C	8.6
Fairfield Fund	A	D	11.1
*Fairmont Fund	B	C	3.1
FBL—Growth Common Stock	D	C	11.6

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*Federated Exchange Fund	B	C	11.2%
*Federated Stock & Bond Fund	D	B	9.3
*Federated Stock Trust	A	B	12.7
*Fidelity Congress Street Fund	B	B	11.6
*Fidelity Contrafund	B	C	21.0
*Fidelity Destiny Portfolio I	A	B	18.8
Fidelity Equity-Income Fund	C	A	22.5
*Fidelity Exchange Fund	B	B	16.4
*Fidelity Fund	C	B	17.9
Fidelity Magellan Fund	A+	A	22.7
Fidelity Puritan Fund	B	B	18.8
Fidelity Select—Energy	D	B	15.9
Fidelity Select—Financial Services	B	B	12.1
Fidelity Select—Health Care	A	D	8.8
Fidelity Select—Prec Metals & Mins	B	F	–23.9
Fidelity Select—Technology	C	F	–2.7
Fidelity Select—Utilities	D	A	16.5
*Fidelity Trend Fund	C	C	24.2
*Fidelity Value Fund	B	B	29.0
*Fiduciary Capital Growth Fund	D	C	18.8
*Fiduciary Exchange Fund	B	C	11.6
*Financial Dynamics Fund	C	D	9.1
*Financial Industrial Fund	C	D	5.9
*Financial Industrial Income Fund	D	A	15.3
*†Financial Strategic—Pacific Basin	B	D	23.2
First Investors Discovery Fund	D	D	17.0
First Investors Fund for Growth	D	F	11.5
†First Investors International Securities	C	C	15.8
44 Wall Street Equity Fund	C	F	32.3
44 Wall Street Fund	D	F	19.3
Founders Blue Chip	C	C	10.0
Founders Equity Income Fund	D	A+	11.1
Founders Growth Fund	A	C	4.8
*Founders Special Fund	A	D	13.1
FPA Capital Fund	C	C	18.1
FPA Paramount Fund	D	A	20.7
Franklin DynaTech Fund	C	D	6.5
Franklin Equity Fund	B	C	25.4
†Franklin Gold Fund	D	D	–10.6
Franklin Growth Fund	D	B	9.1
Franklin Income Fund	D	A	8.2
Franklin Option Fund	D	A	19.0
Franklin Utilities Fund	F	A+	11.6
Fund of America	C	B	16.1
Fund of the Southwest	C	C	19.4

[illegible] shareholder and 12b-1 plan. *Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 [illegible] up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-[illegible] Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. *Source: Forbes/CDA Equity Fund Evaluator on diskette*

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Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Fundamental Investors	B	B	14.9%
*Gateway Option Index Fund	F	A	19.8
*General American Investors	A	C	15.1
*General Securities	D	B	13.9
Gintel Erisa Fund	D	A	22.0
*Gintel Fund	D	B	29.3
*GPM Fund	B	C	18.4
Growth Fund of America	A	B	18.3
*Growth Industry Shares	C	C	6.8
†GT Global Pacific	B	C	26.4
*Guardian Mutual Fund	B	B	28.0
Guardian Park Ave Fund	B	B	20.7
†John Hancock Growth Trust	A	D	11.3
Hartwell Emerging Growth	A+	F	19.2
Hartwell Growth Fund	A+	D	3.1
Hutton Investment—Growth	C	C	6.5
*IAI Regional Fund	A	B	18.5
*IAI Stock Fund	C	B	8.4
IDS Discovery Fund	C	D	12.9
IDS Equity Plus	B	C	8.4
IDS Growth Fund	A+	D	7.3
IDS Mutual	C	C	12.6
IDS New Dimensions Fund	A	C	8.1
IDS Progressive Fund	C	B	20.5
IDS Stock Fund	D	B	10.4
Income Fund of America	D	A+	14.7
Investment Co of America	B	B	13.2
Investment Trust of Boston	C	D	9.7
Investors Research Fund	A	D	–1.2
IRI Stock Fund	B	C	6.8
ISI Growth Fund	F	B	2.2
ISI Trust Fund	F	A+	12.4
*Ivy Growth Fund	C	A	12.2
*Janus Fund	C	A	16.6
*†Japan Fund	A	B	18.9
JP Growth Fund	D	B	7.3
Kemper Growth Fund	A	D	10.7
†Kemper International Fund	B	C	17.2
Kemper Option Income Fund	F	A	17.2
Kemper Summit Fund	A	D	7.7
Kemper Total Return Fund	A+	F	8.7
Keystone Custodian K-1	C	C	11.5
Keystone Custodian K-2	B	D	10.6
Keystone Custodian S-1	C	D	8.4
Keystone Custodian S-3	B	D	14.1
Keystone Custodian S-4	A	F	11.8%
†Keystone International Fund	C	C	16.7
†Keystone Precious Metals	D	D	–15.4
†Kleinwort Benson—Transatlantic Grow	B	C	20.9
Lehman Capital Fund	A	C	–4.6
*Lehman Corp	C	B	16.1
Lehman Investors Fund	C	B	16.6
*Lehman Opportunity Fund	B	A	23.2
Lepercq-Istel Fund	D	D	7.2
*Leverage Fund of Boston	B	D	9.4
Lexington Corp Leaders Trust Fund[1]	B	B	19.4
*Lexington Goldfund	A	D	–15.0
*Lexington Growth Fund	A	D	10.4
*Lexington Research Fund	C	C	9.4
*Lindner Fund	D	A+	20.4
*Loomis-Sayles Capital Development	A+	B	–0.3
*Loomis-Sayles Mutual Fund	A	D	3.2
Lord Abbett Developing Growth	C	D	3.5
Lutheran Brotherhood Fund	D	A	9.2
*Mairs & Power Growth Fund	C	C	3.2
*Mairs & Power Income Fund	C	A	9.7
*Manhattan Fund	A	C	18.3
*Horace Mann Growth Fund	C	D	8.1
Mass Capital Development Fund	A	C	9.0
Mass Financial Development Fund	A	D	10.3
Mass Financial Emerging Growth Trust	A	D	14.8
Mass Financial Total Return Trust	B	C	15.0
Mass Investors Growth Stock Fund	B	D	4.1
Mass Investors Trust	C	C	10.4
*Mathers Fund	B	B	13.6
Medical Technology Fund	A	D	11.4
Meeschaert Capital Accumulation	D	B	2.1
Merrill Lynch Basic Value Fund	C	A	22.8
Merrill Lynch Capital Fund	C	A	17.0
Merrill Lynch Equi-Bond I Fund	D	B	7.8
†Merrill Lynch Pacific Fund	A	C	32.1
Merrill Lynch Special Value	D	D	17.1
*†Mexico Fund	A+	C	74.8
MidAmerica High Growth Fund	D	B	17.3
MidAmerica Mutual Fund	D	B	8.8
Mutual Benefit Fund	C	A	29.9
Mutual of Omaha Growth Fund	D	C	22.4
Mutual of Omaha Income Fund	F	A	12.0
*Mutual Series Fund—Mutual Shares	D	A+	34.2
*Mutual Series Fund—Qualified	C	A+	30.1

*Fund has no load or shareholder paid 12b-1 plan †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index [1]Formerly Corp Leaders Trust Fund Certificate Series B

Source: Forbes/CDA Equity Fund Evaluator on diskette

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
National Aviation & Technology	C	C	25.0%
National Growth Fund	D	D	7.8
*National Industries Fund	D	C	3.0
National Stock Fund	D	B	21.0
National Total Income Fund	C	A	18.0
National Total Return Fund	B	D	13.5
Nationwide Fund	D	B	16.8
Nationwide Growth Fund	C	A	22.5
Nautilus Fund	F	D	7.5
*Neuwirth Fund	B	D	31.2
New England Equity Income Fund	D	A	10.0
New England Growth Fund	A	B	1.4
New England Retire Equity Fund	B	B	–2.2
†New Perspective Fund	C	B	10.2
New York Venture Fund	A	B	20.9
Newton Growth Fund	B	D	12.8
*Niagara Share Corp	B	D	12.9
*Nicholas Fund	B	A	18.0
*Northeast Investors Growth	A	C	12.8
Nova Fund	C	C	–4.1
Old Dominion Investors' Trust	D	B	14.4
Omega Fund	B	D	14.3
One Hundred Fund	C	D	1.7
One Hundred One Fund	D	C	5.3
Oppenheimer Directors Fund	B	D	20.7
Oppenheimer Equity Income Fund	C	B	14.0
Oppenheimer Fund	B	D	8.3
†Oppenheimer Global Fund	C	C	22.9
Oppenheimer Premium Income	F	A+	4.9
Oppenheimer Special Fund	D	C	18.1
Oppenheimer Target Fund	C	C	32.4
Oppenheimer Time Fund	A	C	13.7
Oppenheimer Total Return Fund	C	C	13.3
Over-the-Counter Securities Fund	C	B	28.1
*Partners Fund	C	A	15.4
Pax World Fund	C	D	11.7
*Penn Square Mutual Fund	D	B	14.2
Pennsylvania Mutual Fund	C	B	24.5
*Petroleum & Resources Corp	B	D	11.2
Philadelphia Fund	D	C	15.2
Phoenix Balanced Fund	B	C	2.9
Phoenix Convertible Fund	C	B	4.5
Phoenix Growth Fund	B	A	6.9
Phoenix Stock Fund	A	B	4.5
Phoenix Total Return	D	B	3.3
Pilgrim MagnaCap Fund	C	A	16.5%
*Pine Street Fund	D	C	16.2
Pioneer Fund	C	C	18.2
Pioneer II	B	B	21.6
*T Rowe Price Growth Stock Fund	C	D	6.0
*†T Rowe Price International Stock Fund	B	C	17.8
*T Rowe Price New Era Fund	A	D	10.2
*T Rowe Price New Horizons Fund	B	D	14.0
Princor Capital Accumulation Fund	C	A	13.8
Princor Growth Fund	B	D	10.9
Provident Fund for Income	D	B	12.6
Pru-Bache Equity Fund	B	B	14.4
Pru-Bache Growth Opportunity	B	C	25.9
Pru-Bache Utility Fund	D	A	22.7
Putnam Convertible Income—Growth	A	D	12.1
Putnam Energy—Resources Trust	D	F	20.2
Putnam Fund for Growth & Income	C	B	20.6
George Putnam Fund of Boston	B	C	12.1
Putnam Health Sciences Trust	A	D	10.5
†Putnam International Equities Fund	B	C	9.0
Putnam Investors Fund	B	D	7.5
Putnam Option Income Trust	D	B	22.5
Putnam Vista Basic Value	A	B	14.7
Putnam Voyager Fund	A	D	11.6
Quasar Associates	A+	C	29.7
*Quest for Value Fund	C	A+	17.6
Rochester Tax Managed Fund	F	A	22.7
*Safeco Equity Fund	C	C	25.3
*Safeco Growth Fund	C	C	22.1
*Safeco Income Fund	D	A	19.0
*Scudder Development Fund	C	C	11.0
*Scudder Equity—Capital Growth	B	B	33.5
*Scudder Growth & Income Fund	B	C	11.9
*†Scudder International Fund	B	C	18.7
*Second Fiduciary Exchange Fund	B	C	10.4
Security Equity Fund	A	D	19.1
Security Investment Fund	D	C	10.7
Security Ultra Fund	A	D	22.5
Selected American Shares	D	A	22.0
Selected Special Shares	C	D	19.4
Seligman Capital Fund	A	D	2.4
Seligman Common Stock Fund	B	B	10.1
Seligman Growth Fund	B	D	7.3
Seligman Income Fund	D	A	10.6
Sentinel Balanced Fund	C	B	9.9

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. *Source: Forbes/CDA Equity Fund Evaluator on diskette*

Fund Ratings

Stock and balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Sentinel Common Stock Fund	C	A	13.4%
Sentinel Growth Fund	A	D	3.5
Sentry Fund	B	D	16.9
*Sequoia Fund	D	A+	10.9
Shearson Lehman Appreciation Fund	A	B	13.5
Shearson Lehman Fundamental Value	D	B	21.1
Sherman, Dean Fund	D	F	25.7
Sigma Capital Shares	B	B	10.9
Sigma Investment Shares	C	B	11.6
Sigma Special Fund	B	C	11.5
Sigma Trust Shares	C	C	12.4
Sigma Value Shares	B	D	18.8
Sigma Venture Shares	B	D	4.0
Smith Barney Equity Fund	B	C	0.9
Smith Barney—Income & Growth	D	A	17.7
†SoGen International Fund	C	A	14.2
*Source Capital	C	A+	16.7
Sovereign Investors	D	A	11.2
*Spectra Fund	A	D	6.0
State Bond Common Stock Fund	C	D	9.8
State Bond Diversified Fund	D	B	15.2
State Bond Progress Fund	C	D	9.9
*State Street Exchange Fund	B	C	12.2
*State Street Growth Fund	B	C	15.0
State Street Investment Corp	B	C	10.2
Steadman American Industry Fund	F	F	–11.1
Steadman Associated Fund	F	C	1.5
Steadman Investment Fund	F	D	–6.6
Steadman Oceanographic Tech & Grow	F	F	–25.9
*SteinRoe Equity—Capital Opportunities	A+	F	–3.9
*SteinRoe Equity—Special Fund	A	C	20.2
*SteinRoe Equity—Stock Fund	A	D	0.7
*SteinRoe Equity—Total Return Fund	C	D	7.8
*SteinRoe Equity—Universe Fund	B	D	2.3
Strategic Capital Gains	F	D	5.5
Strategic Investments Fund	A+	F	–42.9
*Stratton Growth Fund	D	C	22.6
*Stratton Monthly Dividend Shares	F	A+	9.7
Strong Investment Fund	C	B	9.1
Strong Total Return Fund	A	C	15.5
Surveyor Fund	B	D	28.8
Technology Fund	A	D	2.9
†Templeton Foreign Fund	C	B	22.0
*†Templeton Global[1]	C	B	28.7
†Templeton Growth Fund	C	B	23.6
†Templeton World Fund	C	B	19.7%
*Tri-Continental Corp	B	C	7.2
*Tudor Fund	A	C	15.3
*20th Century Growth Investors	A+	D	2.7
*20th Century Select Investors	A+	D	5.6
*20th Century Ultra Investors	A	D	13.3
*Unified Growth Fund	C	B	19.3
*Unified Income Fund	C	D	14.6
*Unified Mutual Shares	D	B	16.9
United Accumulative Fund	C	B	17.0
United Continental Income Fund	A	D	11.7
United Income Fund	D	A	19.8
†United International Growth	C	A	9.9
United Retirement Shares	C	C	17.7
United Science & Energy Fund	C	C	9.0
*†United Services—Gold Shares Fund	F	D	–35.7
*United Services—Good & Bad Times	D	C	–3.1
US Trend Fund	B	C	12.5
United Vanguard Fund	B	A	13.2
*USAA Mutual—Growth Fund	C	D	6.6
*USAA Mutual—Sunbelt Era Fund	B	D	14.4
*Valley Forge Fund	F	A+	7.0
*Value Line Fund	B	C	9.6
*Value Line Income Fund	D	A	14.0
*Value Line Leveraged Growth Inv	B	B	6.4
*Value Line Special Situations Fund	C	D	3.3
†Van Eck International Investors	D	C	–22.1
*Vance, Sanders Exchange Fund	B	C	12.9
Vance, Sanders Special Fund	D	C	9.5
*Vanguard Explorer Fund	C	C	25.8
*Vanguard High Yield Stock	D	A+	25.9
*Vanguard Index Trust—500 Portfolio	B	C	16.2
*Vanguard WL Morgan Growth Fund	B	C	22.4
*Vanguard Naess & Thomas Spec Fund	D	D	24.6
*†Vanguard Trustees Commingled—Intl	C	A	18.7
*Vanguard Trustees Commingled—US	B	B	24.6
*Vanguard Wellesley Income Fund	D	A+	13.5
*Vanguard Wellington Fund	B	C	16.1
*Vanguard Windsor Fund	C	A+	28.7
Variable Stock Fund	D	B	4.8
Wall Street Fund	C	D	18.6
Washington Mutual Investors	C	A	17.6
Weingarten Equity Fund	A+	D	11.3
*WPG Fund	A	C	9.7

*Fund has no load or shareholder paid 12b-1 plan. †Foreign funds were rated over down market periods from 10/31/80 to 9/30/82, 4/30/84 to 7/31/84, and 9/30/87 to 10/31/87, and for up market periods from 9/30/82 to 4/30/84, 7/31/84 to 9/30/87, and 10/31/87 to 12/31/88. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Templeton Global I.

Source: Forbes/CDA Equity Fund Evaluator on diskette

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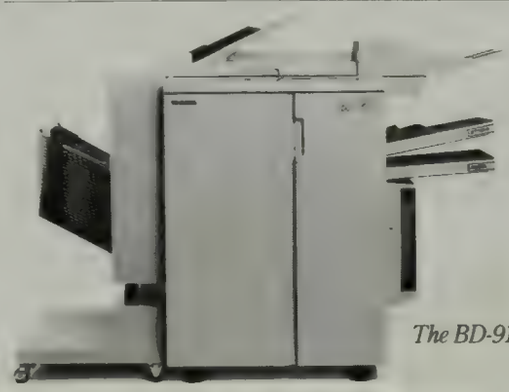

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Taxable bond and preferred funds

We rate taxable fixed-income funds over three market cycles, covering the period Mar. 31, 1980 to Dec. 31, 1988. A fund must have been in operation for at least two of those cycles—since Sept. 30, 1981—to be rated. Our benchmark is the Merrill Lynch Corporate/Government bond index. More information about the rating system appears in the annual fund survey *(Sept. 5, 1988)*.

As with equity funds, the idea is to show separately how well a fund does in bull and in bear markets. And, like equity funds, bond funds do not often shine in both fair weather and foul. The ones that do well in bear markets—that is, when interest rates are rising and bond prices are going down—tend to be the ones with the shortest maturities of bonds in their portfolio. Portfolios of long-term bonds, by contrast, benefit the most from declining interest rates but suffer the most in bear markets. Fidelity High Income is an exception. It landed an A in both bull and bear markets.

The following table contains 157 funds: all those large enough and old enough to qualify for letter grades in the annual fund survey, plus any funds that have at least $400 million in assets and at least 12 months of performance data. Municipal bond funds are listed separately starting on page 162.

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*AARP Income—GNMA & US Treas			4.7%
*ACM Government Income Fund			6.9
Alliance Bond—Monthly Income Shares	B	D	8.2
Alliance Bond—US Government			6.5
Alliance Mortgage Securities Income			8.6
AMA Income Fund—Classic Income	D	D	5.9
*American Capital Bond Fund	B	B	11.6
American Capital Corp Bond Fund	C	B	12.7
American Capital Government Secs			6.9
American Capital High Yield Inv	C	B	12.9
American Funds Inc—US Govt Guar			6.9
*AMEV Securities	B	D	9.0
AMEV US Govt Securities Fund	C	B	7.3
Axe-Houghton Income Fund	A	C	8.7
*Babson Bond Trust—Long-Term	D	B	7.4
Bond Fund of America	C	B	10.7
*Bunker Hill Income Securities	B	C	10.3
*Capital Preservation Treasury Note	D	A	5.2
Cigna High Yield Fund	B	A	16.4
Cigna Income Fund	B	C	9.0
*Circle Income Shares	C	B	9.4
*CNA Income Shares	B	A	22.7
Colonial Government Securities Plus			8.5
Colonial High Yield Securities	C	A	12.6
Colonial Income Trust	C	D	12.4
Composite Income Fund	C	D	7.1
Criterion Bond—Investment Quality	A	D	6.4
Criterion Bond—US Govt High Yield			6.2
*Current Income Shares	A	D	9.8
Dean Witter Government Secs Plus			6.1
Dean Witter High Yield Secs	B	C	10.0
Dean Witter US Govt Securities			6.9
Delaware Group Delchester High Yield-I	B	C	14.0
*Drexel Bond-Debenture Trading Fund	F	A+	8.3
*Dreyfus A Bonds Plus	D	B	8.9%
Dreyfus GNMA Fund			5.6
Eaton Vance High Yield	C	A	19.9
*Excelsior Income Shares	B	F	6.5
*Federated GNMA Trust			8.2
Federated High Income Securities	C	C	15.0
*Federated Income Trust			8.3
*Federated Intermediate Government			5.3
*Federated Short-Intermed Govt			5.7
*Fidelity Flexible Bond Fund	C	D	7.8
*Fidelity Ginnie Mae			7.2
*Fidelity Government Securities Fund	D	C	6.4
*Fidelity High Income Fund	A	A	12.5
*Fidelity Intermediate Bond Fund	D	A	7.1
*Fidelity Mortgage Securities			6.7
*First Australia Prime Income Fund			27.3
First Investors Bond Appreciation	D	B	8.2
First Investors Fund for Income	D	B	12.9
*Fort Dearborn Income Securities	A+	F	9.5
Franklin AGE High Income Fund	C	B	14.0
Franklin US Government Securities	D	D	7.4
Fund for US Govt Securities	B	D	7.6
*Global Yield Fund			2.6
Government Income Securities			6.6
*Hatteras Income Securities	B	C	9.9
John Hancock Bond Trust	B	C	8.9
*John Hancock Investors Trust	C	B	9.4
John Hancock US Govt Securities	D	A	19.9
High Yield Securities	D	A	7.4
Hutton Investment—Bond & Income			7.2
Hutton Investment—Government Secs			7.5
*IAI Bond Fund	D	D	6.4
IDS Bond Fund	B	C	10.1
IDS Extra Income Fund			13.4

*See Dictionary of Fund Ratings for shareholder fund 12b-1 plan

Source: Forbes CDA Bond Fund Evaluator on diskette

Fund Ratings

Taxable bond and preferred funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
IDS Selective Fund	A	C	9.6%
*INA Investment Securities	B	D	8.8
*Independence Square Income Secs	A	D	11.0
*InterCapital Income Securities	A	C	12.7
Investment Portfolios—Govt Plus			4.5
Investment Portfolios—High Yield			12.4
Kemper High Yield Fund	B	A+	14.3
Kemper Income & Capital Preservation	C	C	10.4
Kemper US Government Securities	C	D	6.3
Keystone Custodian B-1	C	D	6.2
Keystone Custodian B-2	C	C	10.8
Keystone Custodian B-4	D	B	11.7
*Lexington GNMA Income Fund	D	D	6.8
*Lincoln National Direct Placement	D	A+	13.7
Lord Abbett Bond-Debenture Fund	D	A	13.8
Lord Abbett US Government Securities	D	A	7.9
Lutheran Brotherhood Income Fund	A	C	10.7
MacKay-Shields MainStay—Govt Plus			5.6
Mass Financial Bond Fund	B	D	7.5
Mass Financial High Income—Series I	B	B	11.5
*MassMutual Corporate Investors	C	A+	11.6
MassMutual Integrity-Invest Grade	D	C	2.8
Merrill Lynch Corp—High Income	D	A	12.6
Merrill Lynch Corp—High Quality	B	D	8.5
Merrill Lynch Corp—Intermediate	C	C	7.7
Merrill Lynch Federal Securities			7.4
Merrill Lynch Retire/Income Fund			7.1
MetLife-State Street Govt Income			6.5
*MFS Government Markets Income			10.3
MFS Government Securities High Yield			6.3
MFS Lifetime Government Income Plus			5.2
*MFS Multimarket Income Trust			5.0
Midwest Income—Intermediate Govt	D	C	5.0
*Montgomery Street Income Securities	B	D	11.4
*Mutual of Omaha America Fund	F	A	8.2
*Mutual of Omaha Interest Shares	A+	C	12.5
National Bond Fund	C	D	8.4
National Federal Securities Trust			4.5
Nationwide Bond Fund	C	D	8.2
New England Bond Income Fund	D	C	6.8
*Nicholas Income Fund	C	C	11.5
*Northeast Investors Trust	A	C	14.0
Oppenheimer High Yield Fund	D	B	11.9
*Pacific American Income Shares	B	C	8.6
PaineWebber Fixed Inc—GNMA			7.4
PaineWebber Fixed Inc—High Yield			8.5%
PaineWebber Master Global Income			12.1
Phoenix High Yield Fund	C	A	13.6
Pilgrim High Yield Trust	C	B	12.2
Pioneer Bond Fund	D	C	7.7
*T Rowe Price High Yield Fund			17.8
*T Rowe Price New Income Fund	F	A	7.7
Pru-Bache Government Plus			5.6
Pru-Bache Govt Secs—Intermediate			4.8
Pru-Bache High Yield Fund	C	B	13.0
Putnam GNMA Plus Trust			5.7
Putnam High Income Government			5.1
Putnam High Yield Trust	B	B	13.9
Putnam High Yield Trust II			15.0
Putnam Income Fund	B	C	10.3
*Putnam Master Income Trust			11.6
Putnam US Govt Guaranteed Securities			7.5
*Revere Fund	F	B	5.8
*Scudder Income Fund	C	C	9.0
Security Income—Corporate Bond	D	B	6.4
Sentinel Bond Fund	D	B	8.5
Shearson Lehman—High Income Bond			12.4
Shearson Lehman High Yield Fund	A	B	11.2
Shearson Lehman—Long-Term Govt			5.1
Shearson Lehman Managed Govts			6.7
Sigma Income Shares	A	F	6.6
*State Mutual Securities Trust	D	B	9.2
*SteinRoe Income—Managed Bonds	C	D	6.6
Thomson McKinnon Inv—Income			10.1
Thomson McKinnon Inv—US Govt			6.0
*Transamerica Income Shares	A+	C	12.8
*20th Century US Governments			5.6
United Bond Fund	A	D	8.9
United High Income Fund	B	B	11.8
*USLife Income Fund	A	D	13.1
*Value Line US Government Securities	B	C	7.9
Van Kampen Merritt US Government			7.9
*Vanguard Fixed Income—GNMA	B	B	8.8
*Vanguard Fixed Income—High Yield	C	B	13.5
*Vanguard Fixed Income—Invest Grade	C	C	9.7
*Vanguard Fixed Income—Short-Term			6.9
*Vanguard Preferred Stock Fund	A	D	7.9
Venture Income (+) Plus	C	B	7.3
*Vestaur Securities	A	D	9.2

*Fund has no load or shareholder-paid 12b-1 plan.

Source: Forbes/CDA Bond Fund Evaluator on diskette

Fund Ratings

Municipal bond funds

A tax-exempt fund is rated here if it has over $100 million in assets and four years of performance history. Each month since Dec. 31, 1984 was treated as either a bull or bear month, according to the performance of the Shearson Lehman Hutton municipal bond index. The ratings reflect the fact that short-term funds, which are lower in interest rate risk, do very poorly in bull markets and relatively well in bear ones, while long-term funds do the reverse. Very few funds can excel in both environments.

Raw performances for New York and California funds were adjusted upward to compensate for their yield disadvantage in buying local bonds only.

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
American Capital Muni Bond Fund	B	D	14.0%
*Benham Calif Tax-Free—Intermediate	D	A	5.9
*Benham Calif Tax-Free—Long-Term	B	D	10.3
Calvert Tax-Free Reserves—Limited	F	A+	6.8
Cigna Municipal Bond Fund	A+	F	12.4
Colonial Tax-Exempt—High Yield Fund	D	A	10.5
Dean Witter Calif Tax-Free Income	A	F	11.2
Dean Witter Tax-Exempt Secs	A	C	13.0
Delaware Group Tax-Free—USA	B	A	14.2
DMC Tax-Free Income Trust—PA	C	A	12.3
Double Exempt Flex Fund	D	A	10.4
*Dreyfus California Tax-Exempt Bond	C	C	9.7
*Dreyfus Intermediate Tax-Exempt Bond	D	A	8.1
*Dreyfus NY Tax-Exempt Bond Fund	B	D	10.2
*Dreyfus Tax-Exempt Bond Fund	C	B	11.5
*Federated Short-Intermediate Muni	F	A+	5.6
Federated Tax-Free Income Fund	C	B	7.9
*Fidelity Calif Tax-Free—High Yield	B	D	11.7
*Fidelity Mass Tax-Free—High Yield	C	B	10.7
*Fidelity NY Tax-Free—High Yield	C	C	11.9
*Fidelity Tax-Free—High Yield	B	C	12.2
*Fidelity Tax-Free—Limited Term Munis	D	A	8.2
*Fidelity Tax-Free—Municipal Bond	A	C	12.3
*Financial Tax-Free Income Shares	A+	F	15.1
First Investors New York Tax-Free	C	B	10.2
First Investors Tax-Exempt Fund	D	A	10.6
Franklin Calif Tax-Free Income	C	A	12.2
Franklin Federal Tax-Free Income	A	C	13.7
Franklin New York Tax-Free Income	A	C	12.3
John Hancock Tax-Exempt Income Trust	A	C	11.4
IDS High Yield Tax-Exempt Fund	B	B	10.0
IDS Tax-Exempt Bond Fund	A	D	8.2
Kemper California Tax-Free Income	B	A	7.5
Kemper Municipal Bond Fund	C	A	8.7
Keystone Tax-Free Fund	C	B	10.9
Limited Term Municipal—National	D	A	8.7
Lord Abbett Tax-Free—National	A	C	12.6
Lord Abbett Tax-Free—New York	A	B	12.1
Lutheran Brotherhood Muni Bond	B	B	10.7
Merrill Lynch Muni—High Yield	B	B	11.8
Merrill Lynch Muni—Insured	C	B	11.0%
Merrill Lynch Muni—Ltd Maturity	F	A+	6.0
MFS Managed High Yield Muni Bond	D	A	9.0
MFS Managed Muni Bond Trust	B	B	11.6
Mutual of Omaha Tax-Free Income	A+	C	12.1
New England Tax-Exempt Income Fund	A	D	11.4
Nuveen Municipal Bond Fund	B	A	9.9
Oppenheimer Tax-Free Bond Fund	B	B	9.5
PaineWebber Tax-Exempt Income	C	B	10.6
*T Rowe Price Tax-Free Income Fund	C	C	7.9
*T Rowe Price T-F Short Intermediate	D	A	5.0
Putnam California Tax-Exempt Income	B	A	12.4
Putnam New York Tax-Exempt Inc	B	C	11.9
Putnam Tax-Exempt Income Fund	A	C	13.1
*Safeco Municipal Bond Fund	A	C	13.9
*Scudder California Tax-Free Fund	A	D	11.9
*Scudder Managed Municipal Bonds	B	C	12.0
*Scudder NY Tax-Free Fund	C	C	10.9
*Scudder Tax-Free Target—1990	D	A	4.9
*Scudder Tax-Free Target—1993	D	A	5.6
Seligman Tax-Exempt—Massachusetts	B	D	11.0
Seligman Tax-Exempt—Michigan	A	D	12.3
Seligman Tax-Exempt—Minnesota	B	D	12.1
Seligman Tax-Exempt—National	A	C	13.8
Seligman Tax-Exempt—Ohio	A	D	12.3
Shearson Lehman California Municipals	B	B	11.7
Shearson Lehman Managed Municipals	B	B	10.4
Shearson Lehman New York Municipals	B	B	11.9
*SteinRoe T-E Income—High Yield	C	A	13.5
*SteinRoe Tax-Exempt Income—Managed	A+	F	10.6
Tax-Exempt Bond Fund of America	B	C	9.2
United Municipal Bond Fund	A+	C	14.9
*USAA Tax-Exempt Fund—High Yield	B	C	12.5
*USAA Tax-Exempt Fund—Intermediate	D	A	8.7
*USAA Tax-Exempt Fund—Short-Term	F	A+	6.1
*Vanguard Muni Bond—High Yield	A	C	13.8
*Vanguard Muni Bond—Insured L-T	A	C	12.8
*Vanguard Muni Bond—Intermediate	C	B	10.0
*Vanguard Muni Bond—Long-Term	A	D	12.2
*Vanguard Muni Bond—Short-Term	F	A+	5.6

*[illegible] load + shareholder-paid 12b-1 plan

Source: Forbes/CDA Bond Fund Evaluator on diskette

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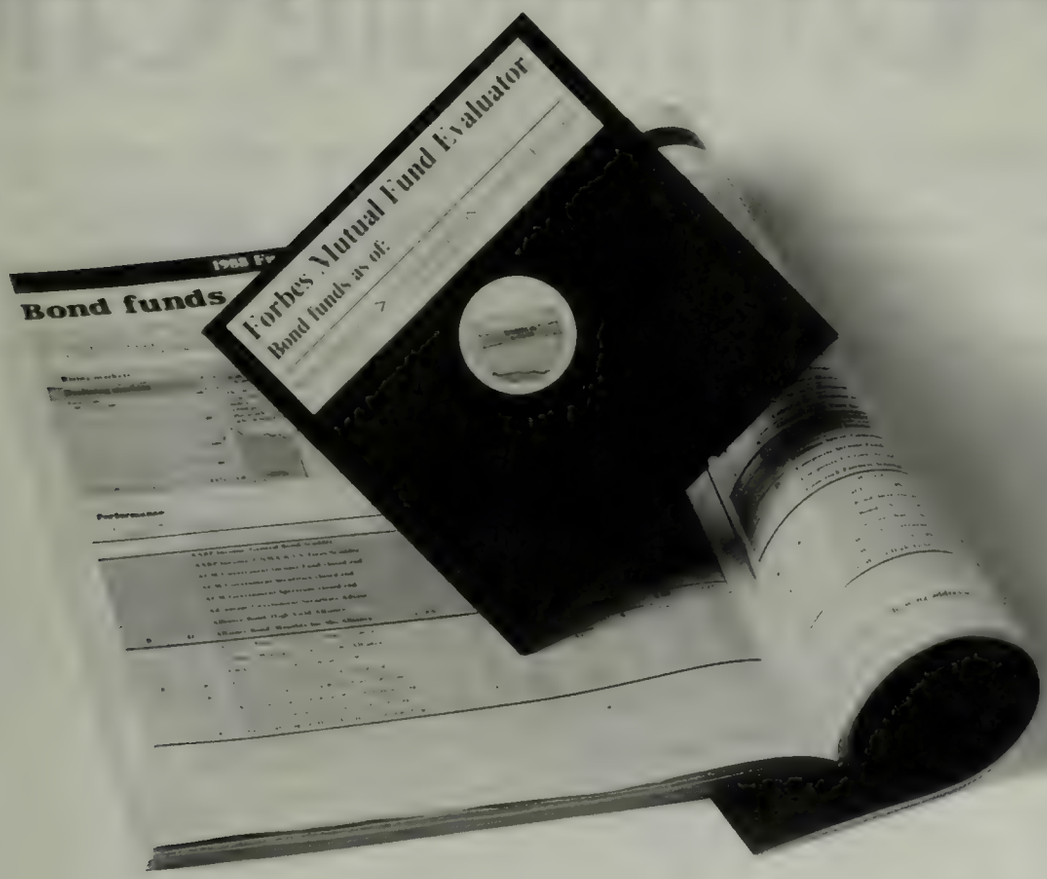

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CDs of sick S&Ls carry premium yields. But sometimes the risks are overrated, and so the CDs are good buys.

SICK CDs

By Ben Weberman

A lot of brokers are doing a thriving business selling negotiable certificates of deposit. For an investment not subject to state taxes (such as one made through an IRA), a CD can be a good alternative to a Treasury bill or note. If you do opt for a broker-marketed CD, how do you pick the best deal? Should you go for the slightly better yield on the paper of a failing bank or thrift?

Let's look at the risks involved. Assume you stay comfortably below the $100,000 federal insurance ceiling, so you know you won't lose principal. And assume you're buying the CD from a broker because liquidity is important to you. Should you need the money before the CD matures, you want to be able to sell it in the secondary market.

On those assumptions, there are two risks. One is that the issuing bank or thrift will go bust, and the feds will pay off your CD early. If rates have gone down, you'll get a lower return than you bargained for—the insurance guarantees only principal and interest accrued to the date of the bank's failure. You have, in short, a reinvestment risk on shaky CDs.

The other risk arises if you do need to sell the CD in the secondary market and find the bids unreasonably low. Market makers are playing hot potato with the CD because its issuer could go bust any day and they are protected only up to the first $100,000 of their inventory.

Both risks are real, but they are small. Insisting on the CD of a strong issuer will cost 10 or more basis points of return—more than the added peace of mind is worth, in my judgment.

As this is written, investment-quality deposits sold through brokers are paying 9% for three- and six-month maturities, 9.15% for one-year and 9.4% for three-year and four-year issues. All these are bond-equivalent yields, meaning that they reflect the benefit of a 365/360 factor if applicable (banks have the option of computing interest as if there were only 360 days in the year) and assume that interest is reinvested semiannually.

Gibraltar Savings of Beverly Hills, Calif., by contrast, recently downgraded a notch by Standard & Poor's to B, is paying 9.25% (bond equivalent) on brokered one-year CDs.

You can sometimes do very well buying the CD of a shaky issuer before it gets taken over. Consider First Gibraltar Bank in Texas (no relation to the California thrift). Last December, before a federally assisted takeover, the Texas Gibraltar had a large amount of long-term CDs outstanding which had been issued a few years ago. In the past, these had been trading at yields of 75 to 125 basis points more than similar-maturity Treasury issues. The takeover did not, as it turned out, cause a premature redemption of the certificates. (That's no surprise, since rates have been going up recently.) Instead, the deposits received a stronger backing than they had before. Now these issues are traded by brokers at a yield about 25 basis points over Treasurys. A saver who bought at a 125-point spread is doing quite well.

Whichever issuer you select, however, you're likely to do better buying through a securities dealer than walking in the front door of the issuer. That's because the bank or thrift is willing to pay a higher rate to get $10 million through a broker than by going after the money $1,000 at a time. The higher yields quoted are what's left after brokers take their commission.

Standard & Poor's deposit credit ratings are a good place to start looking for undervalued, highly rewarded deposits. For instance, New West Savings & Loan Association, a successor to American Savings & Loan of Stockton, Calif., is on CreditWatch for possible upgrading, according to Michael De Stefano, vice president at S&P. As an example of what can happen, Columbia Savings of Colorado has been acquired by a Ford Motor subsidiary. The rating was changed from a shabby B-/B (long and short, respectively) to an investment grade A+/A-1.

While assisting ailing savings associations, Merrill Lynch has worked out some deals that are highly beneficial to investors. In the federally assisted takeover of American Savings & Loan, Merrill worked with FSLIC, the insurer, to guarantee that outstanding CDs would continue to maturity regardless of the status of the issuer. This removes the reinvestment risk. Recent quote on one-year New West CDs: 9.3%.

Merrill, PaineWebber and Shearson Lehman Hutton are among the more active deposit brokers. All maintain secondary markets in deposits they offer initially. You do pay a markdown which can come to $2 to $2.50 per $1,000 off the offering price of a six-month CD. That's roughly equivalent to 40 to 50 basis points of yield.

PaineWebber is offering three-month CDs from Fortune Savings of Clearwater, Fla. at loss-leader prices. The CD pays $23.69 per $1,000 at maturity in 91 days—a bond-equivalent 9.6%. But the renewal in three months may not be so great; the idea is to attract new money to the firm. ■

Ben Weberman is a contributing editor of FORBES magazine.

I feel really good about a stock when customers, competitors and suppliers all agree that a company is first class.

SECURITY ANALYSIS UPDATED

By Kenneth L. Fisher

In my last column I described the 12-call checklist my firm uses before reaching a decision as to whether to buy a stock. It told about the work our Sally Allen did on Fleetwood Enterprises (26) and the mobile home and recreational vehicle industries. Her 12-call file sits 2¼ inches thick with the results of 27 phone calls necessary to complete 12 meaningful calls—4 each to Fleetwood's customers, competitors and suppliers. The results tell a lot, not only about Fleetwood but about some of the ingredients we think must go into a sound investment decision. Here are some of the highlights of the research:

The first Fleetwood customer contacted was Hadden Smith of Media Camping Center in Media, Pa., who deals in recreational vehicles, carrying Winnebago, three Fleetwood lines and several others. While he emphasized Winnebago's top quality, he stressed Fleetwood's "real touch in the marketplace. They know both what the public wants and what it will buy . . . real pizzazz . . . and always timely." In travel trailers, for example, he would prefer it if Fleetwood's Prowler line, his top seller, had a high-quality aluminum frame instead of wood, but he just loves Fleetwood's design and cabinetry.

Jerry Ashford, customer number two, of Travel Trailer Exchange in Everett, Wash. carries only Fleetwood's mobile homes. Why? With Fleetwood's broad multiple product lines covering all price points, and its co-op and warranty dealer programs, "Fleetwood is there when we need them . . . gives our customers the best line for the money." But, because of its dominant market share, dealers are at some disadvantage negotiating with the giant.

"Fleetwood won't allow a dealer to have more than one of its travel trailer lines," Ashford told us. It splits lines up among dealers in a town (although a dealer can carry multiple Fleetwood mobile home lines because mobiles cover a very much wider price range, and the lines vary with the different prices).

Butch Johnson of Johnson Motor Sales in Spokane, Wash. comes under the heading of unhappy ex-customer. He and brother Bruce, who run a "high-end" dealership, with extra emphasis on service, used to carry Fleetwood and stopped. Butch said, "They don't protect dealers like they should. They are the General Motors of the RV industry." He groused that Fleetwood builds different makes of the same model to get penetration higher. The result: "Six Spokane dealers carried the same product . . . makes dealers hostile toward each other . . . nonprofessional . . . there is no service left, the customer suffers."

Finally, Dean Ford of Dean Ford Centers in Moses Lake, Wash. noted Fleetwood's dominance—even in used RVs, where 40% of the used vehicles he sells are Fleetwoods. His point is: "There seems to be customer loyalty. People stay with what they buy the first time, a real edge for Fleetwood." Ford doesn't mind the same multiple-dealers-in-a-town problem that gripes Butch Johnson. If he were a car dealer he would be glad to sell GM's line.

Note this: Almost every competitor paid deference to Fleetwood. That's unusual when 12-calling. Winnebago saw itself as the RV trendsetter, but everyone else in mobile homes and RVs saw Fleetwood as the main innovator. For example, Dale Gonzalez of Kit Manufacturing, which really has come on lately on Fleetwood's own California home turf, called it "the class outfit . . . done a lot for the industry . . . innovative." Then there was Wayne Dahl and Dan Walters of the Holiday Rambler division of Harley-Davidson—both very proud of their dominance of the ultrahigh end of RVs but also acknowledging Fleetwood's number two position with a much inferior product because of all its other advantages. In essence, they are saying Fleetwood sales rank can exceed its product-quality rank in almost any product category in the industry.

Suppliers are always tight-lipped. They won't bad-mouth a single customer and thereby endanger future sales. Four talked, but only on the promise of being "off the record." One appliance maker was most telling as he referred to Fleetwood's 21% share of appliances sold to RVs and mobile homes combined—triple that of number two Winnebago and five times that of anybody else. "You almost wouldn't introduce a product if you couldn't get them to take it, too risky," he said. That's power. It's the power to create product "standards" for style that lesser vendors must live with.

With an unpopular and depressed stock like Fleetwood, selling at 35% of sales, ten times earnings and a discount to the market's price to book, not only does Main Street feedback demonstrate industry dominance and real value, but it also gives you comfort to hold on for the long haul, where the big gains come. You can do the same kind of digging yourself, whenever you want, and I believe you will find your results not only better, but more comfortable when you do. ■

Kenneth L. Fisher is a Woodside, Calif. based money manager. He has written two books The Wall Street Waltz *and* Super Stocks.

MONEY & INVESTMENTS

The savings and loan crisis is going to cost taxpayers more than we want to pay.

THE $100 BILLION BLUNDER

By Ashby Bladen

The federal government for a half century now has done us the favor of guaranteeing both our deposit assets and many of our debt liabilities. My own experiences with federal debt-guaranteeing agencies, such as the Small Business Administration, as well as the thrift deposit insurance fiasco, convince me that the attempt to off-load personal responsibilities onto political institutions was a disastrous mistake. During the rest of this century we, the taxpayers of the U.S., are going to find that those favors are costing us far more than we want to pay.

It is already clear that the government guarantee of the thrift's deposits was a $100-billion-plus mistake. Before federal deposit insurance came along, people didn't leave their savings with institutions that they knew, or even suspected, were bankrupt. The old-fashioned reliance on personal prudence didn't work perfectly—nothing human ever does. But the losses were far less than they will be during the rest of this century.

Moreover, Federal Home Loan Bank Board Chairman Danny Wall's recapitalization of the insolvent thrifts with notes is more a way of sweeping the problem under the rug than a solution. I agree with the House Banking Committee that his frantic bailout deals are a case of heads the politically savvy speculators win, but tails the taxpayers lose. But if it shoots down the FHLBB plans without coming up with a better plan of its own, Congress will create a far worse mess than the one we have on our hands already.

The basic trouble is the economists' notion that, with the help of the national state, we can borrow and spend ourselves rich. Two and a half millennia of recorded history, beginning with Solon's bailout of the Athenian debt slaves in 594 B.C., support the commonsense conclusion that borrowing excessively is not a good idea. But in 1936 A.D. John Maynard Keynes told us that economists can show the politicians how to maintain prosperity by borrowing and spending for the account of the national state, and by encouraging the rest of us to borrow and spend for ourselves.

For a quarter of a century after World War II, the Keynesian development economists told the political leaders of the Third World that their people did not need to scrimp and save in order to finance development, as the people of the developed countries had done during the 19th century. Instead, their countries could just borrow the money. And when the price of oil went through the roof in the 1970s, after they had become well hooked on the debt habit, it seemed natural to go on borrowing in order to buy the oil that they could no longer pay for with their exports.

By now it is crystal clear that the development economists' advice was disastrous. Since 1982 the countries that followed it have been suffering a depression that will inevitably lead many of them to effectively repudiate their external debts. And, because their debts are largely the assets of American banks, that, in turn, will raise serious questions about our ability to repay our own rapidly increasing external debts. Congress has a right and duty to make sure that the thrifts' deposits will be honored at the lowest possible cost to the taxpayers, but Congress should also make it absolutely clear that we taxpayers are firmly on the hook. Otherwise, it risks creating even more doubt about the soundness of our nation's financial system.

By now excessive debt formation has created disasters throughout the world. I am not talking just about poor countries but also about potentially rich oil producers such as Nigeria and Mexico, and such once-prosperous and promising countries as Argentina, Brazil and Venezuela. Excessive borrowing, spending and bailouts caused rising inflation and falling living standards there, and it is foolish to assume that they will not do the same here. It was precisely their politicians' unwillingness to face up to the tough questions and make the hard choices that brought the Argentinians and Brazilians to their knees.

The total amount of the federal government's contingent liabilities is not precisely known, nor is there any way of predicting just how much of it will be defaulted. But we, the people, were not told that we would have to make good on any of it. Our government will find it politically necessary to renege, and let some people, businesses and financial institutions go broke, wherever a plausible excuse can be found. But deposit insurance is not one of those places.

I mentioned Solon earlier because at the very dawn of recorded history he succeeded in drastically reducing the debts of the Athenian people without destroying their credit altogether. It is too bad that history doesn't tell us more about how he did it, for our Solons will need all the help they can get when they are finally ready to make the hard choices that lie ahead. Until they do make them, interest rates in this country have nowhere to go but up. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

The best bond market timers are significantly more negative than the consensus. And they usually win the argument.

BEARISH ON BONDS

By Mark Hulbert

Are bonds still in a bear market? In my last column on bond market timers *(Aug. 22, 1988)*, I focused on the fact that the best-performing bond market timers, as monitored by my *Hulbert Financial Digest*, were significantly more bearish than the overall consensus of timers. I noted that on previous occasions when the best-performing letters differed sharply from the consensus, they more often than not turned out to be right. Thus, their relative bearishness was bad news for bonds.

Well, the best performers were right again, though this time more for short- and intermediate-term, interest-sensitive securities than for long-term bonds. Ninety-day T bill rates, for example, have increased by some 150 basis points since August. But the yield curve has flattened, and long-term bonds have given up relatively little.

This marks the fourth column in which I have contrasted the outlook of the best-performing bond market timers and the consensus view. And the evidence has been consistent enough that the contrast is something to pay attention to.

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac *published by Venera Books.*

The first column came immediately following the October 1987 crash, at which time the best performers were more bullish than the crowd; bonds appreciated at a 20% annual rate before the best performers became more bearish. The other two columns, like the current one, came at a time when the best performers were more bearish than the majority. Both were followed by a decline in bonds.

Unfortunately for bond bulls, the picture that emerges today is hardly more bullish. The three top bond market timers are either out of the market or are advising clients to be short. The average bond market exposure among all timers that I follow, in contrast, stands at a relatively bullish 26%—essentially unchanged from the 28% where it stood in August.

As was the case with my earlier columns, I have chosen the period since the beginning of 1985 to determine those who have beaten the market. (That's because my research has found that it is only after three or four years that a correlation between past and future performance begins to develop *(see my May 2, 1988 column)*. The three bond timers since then that have significantly beaten a simple buy-and-hold approach are Paul Merriman's *Fund Exchange*, Gerald Appel's *Systems & Forecasts* and Robert Prechter's *Elliott Wave Theorist*.

Merriman's *Fund Exchange* has the best record over this four-year period. A portfolio that alternated between the Dow Jones 20-bond average and T bills on Merriman's switches would have made 46.4% since the beginning of 1985, as compared with the 22.3% return from just buying and holding. Close on his heels is Appel's *Systems & Forecasts*, with a 45.5% gain over the same period. Both advisers currently are bearish.

When might these two timers turn bullish? Both have generated the same number of switches over the past four years, and if their current bearish modes are of average length, a bullish switch might not be that far off. But both of their timing models are trend-following systems, so such a switch wouldn't occur until after bonds have exhibited significant strength. And with the yield curve becoming progressively more inverted, such strength doesn't look likely anytime soon.

The third successful bond timer is Robert Prechter, whose timing advice for the bond investor beat a buy-and-hold strategy by a 40.8% to 22.3% margin. Prechter's advice for the bond investor was bearish throughout 1988, and he doesn't anticipate altering it during the next several months.

Two additional points, one bearish and one bullish:

On the bearish side, besides Prechter's advice for the bond investor, he also makes bond timing recommendations for the more aggressive trader. Currently, he says they should be short bonds. But his advice for traders has underperformed the market by a wide margin—gaining little more than half of the return from buying and holding. So we should perhaps be more impressed with Prechter's advice that investors be out of the bond market altogether.

On the bullish side, one newsletter, the *Lynn Elgert Report*, complicates my life by hovering on the verge of being a market beater. For the period since 1985, editor Elgert's bond timing advice more or less equaled a buy-and-hold strategy. Currently he is ahead, by a 28.2% to 22.3% margin. And he is recommending that bond timers allocate 50% of their portfolio to buying bonds.

But remember this is the only bullishness on bonds evident among the long-term market beaters. Its significance perhaps should be reduced because Elgert beat the market only marginally. Because those bond timers who have beaten the market by a larger margin are unanimously bearish, the more likely bet would seem to be that the bears will win this one, too. ■

MONEY & INVESTMENTS

The demoralized critics of the Reagan revolution have been driven to the brutal torture of innocent statistics.

THE "NET SAVINGS" ILLUSION

By Alan Reynolds

Raising the "net savings rate" is this year's economic cure-all, replacing such passing fads as competitiveness and industrial policy. The basic idea is that the government should take more of our money, through a so-called consumption tax. That is supposed to encourage us to save more of the money we no longer have.

The people who preach this fiscal looniness are making some wild assumptions. They assume that higher taxes have no bad effects on the growth of private incomes or savings, or on the market value of past savings (stocks and bonds). With taxes thus raised, businessmen are then supposed to rush to expand production of goods that consumers are discouraged from purchasing.

The tax-raise crowd bases its argument on a narrow and questionable definition of investment—counting only investment in business plant and equipment plus housing. The Federal Reserve, by contrast, properly counts consumer durables as investments rather than consumption, taking account of equity in new cars, for example, and not only the related auto loans. The Fed thus calculates that individuals saved $423 billion in the third quarter of 1988—triple the widely publicized "savings rate" from the Commerce Department.

Business investment, inventories and housing rose from 16.2% of GNP in 1980 to 18.1% in the latest quarter, and consumer durables rose from 7.7% to 10.2%. Yet any such percentage of GNP is inherently misleading, since real GNP has already increased by 26% since 1980. Even if investment had simply remained the same percentage of GNP, rather than rising as it did, annual investment would nonetheless be 26% higher in real terms. As it happens, real private investment actually soared by 43%. Manufacturing industries are producing 35% more than in 1980, which would scarcely have been possible if investment in that sector had been as weak as many claim.

How can people like Peter G. Peterson, Paul Volcker and Benjamin Friedman of Harvard possibly conclude that investment in the U.S. has been weak? Yet they do, and their trick is to claim that *net* investment has declined as a percentage of *gross* national product in "the 1980s." It is difficult to imagine a more misleading statistic.

Comparing net investment to gross national product subtracts a crude estimate of depreciation from the numerator (investment), but keeps it in the denominator (GNP). Depreciation estimates have doubled since 1979, to more than $500 billion a year, because high-tech equipment has a much faster write-off than smokestacks or real estate speculations. This means larger and larger depreciation estimates are being subtracted from net investment while being added to gross national product, thus making investment appear relatively tiny.

To make this illegitimate comparison even worse, the net investment figures are usually shown in nominal terms. By this silly method, writing off an old $1,000 typewriter and replacing it with a $1,000 computer results in no net investment at all.

Comparisons of the 1980s with the 1970s contribute further to this calculated confusion. The 1970s are cleverly defined as 1969-79 (rather than 1970-80)—a period that includes three inflationary peaks—while blaming the resulting 1980-82 deflation on subsequent policies. The 1980s thus include three recession years to dilute the average. It would be far more reasonable to compare the prolonged 1983-89 expansion with the aborted 1976-79 or 1971-73 stagflations. But that comparison reveals the 1970s to be as awful as everyone knows they were.

On the narrowest, most conventional definition, real private domestic investment (in 1982 dollars) averaged $723 billion in the first three quarters of 1988—a 43% increase over 1980. The equally conventional measure of private savings can also be expressed in real terms, using the same price index. Real private savings, in 1982 dollars, amounted to $688 billion in 1988—a 24% increase over 1980. Yes, there is a "gap" between investment and savings, but it is because real investment has expanded more rapidly than savings.

What about the budget deficit? The combined budgets of federal, state and local governments can also be expressed in real, inflation-adjusted terms. Doing that shows a deficit of $66 billion in 1988, again in 1982 dollars, compared with $40 billion in 1980—a relatively trivial change, more than matched by increased government investment. That small increase in real government borrowing clearly did not hamper the five-year record high in real investment in the U.S.

So, how does rapid capital formation become a sign of economic decay or what Benjamin Friedman calls "moral impoverishment"? The answer is, of course, it doesn't. The demoralized critics of the Reagan revolution have been driven to extraordinarily brutal torture of innocent statistics. ■

Alan Reynolds, a guest columnist, is chief economist with Polyconomics Inc., a consulting firm in Morristown, N.J.

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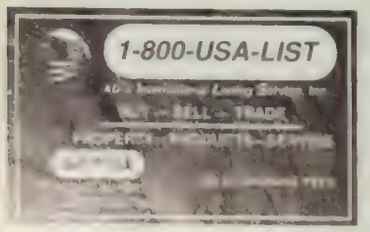

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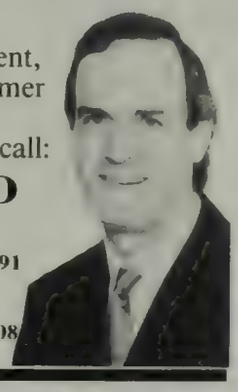

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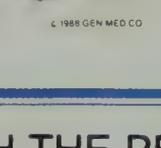
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Streetwalker

Edited by Thomas Jaffe

Bulls, bears and bowls

Stock market fans who think technical analysis is just so much gobbledygook might prefer Super Bowl analysis. That's right, using the Super Bowl to forecast the market. The friendly number crunchers at Minneapolis' IDS Financial Services Inc. have crunched the data on all past Super Bowl games and correlated their findings with the broad stock market averages. Their conclusion: If the National Conference football team wins the Super Bowl, the market, as measured by the Standard & Poor's 500 index, will be up for the year. Conversely, if the American Conference team wins, the market will be down.

Here's the evidence. So far there have been 22 Super Bowls. If you include the victories by the Pittsburgh Steelers and the Baltimore Colts on the side of the Nationals—IDS' methodology does, as both are old National Football League teams that joined the American Conference when the NFL and the American Football League merged in 1970—then National teams have won 15 times. Each time that happened the market was up for the year. American teams, on the other hand, have won 7 times, and all but twice—the Kansas City Chiefs' victory in 1970 and the Los Angeles Raiders' in 1984—the market was down for the year. As barometers go, 20 for 22 is not bad.

At Streetwalker's press time, the S&P 500 index was at 283.5 and the National Conference's San Francisco 49ers were 7-point favorites over the American Conference's Cincinnati Bengals. A San Francisco victory might be bad for Bengals fans as sportsmen but good for them, and the rest of us, as investors.

Smoke or fire?

We're still in a Mike Milken market, one driven by the hope of big deals. In late December, for example, the shares of American Brands, Inc. ran up nearly 30%, to 71¾, in three days, on rumors that Unilever was ready to bid $90 a share for the consumer products company. With 104 million fully diluted shares outstanding, that would have made for an $11.7 billion acquisition, including long-term debt. So far, however, no fire has broken through the smoke, and the Big Board stock has traded off to 64⅝.

American Brands' appeal comes as no surprise to Joseph Frazzano of Oppenheimer & Co. He gives high marks to Chairman William Alley, who has restructured American Brands' office products and hardware businesses and built a stronger worldwide distribution network for its liquor operation. Frazzano thinks the company earned $5.40 a share in 1988, up 20% over the previous year, and is looking for $6.25 a share this year.

If there is a deal, what's $11 billion (estimated 1988 sales) American Brands worth? As much as $95 or $100 a share, says Frazzano. He figures the company's $1.6 billion of projected 1989 operating cash flow is worth a multiple of 8. Tobacco accounts for over 60% of American Brands' sales and profits. Its best-known Pall Mall and Lucky Strike brands are in decline, but the company is aggressively introducing filter brands such as Malibu. Its overseas operation, Gallaher Ltd., has 42% of the U.K. tobacco market and is growing rapidly.

Beyond tobacco, a hodgepodge of salable divisions: Franklin Life Insurance and Southland Life, liquor operations including Jim Beam and Gilbey's gin, Acushnet golf balls, Master Lock locks, Swingline staplers, stationery, etc. Concludes Frazzano: Minus a bid any time soon, the stock could pull back further. Buy at 57 or less.

[illegible] Bengals in action
For the final score, check the S&P.

Still in the pinks

Lawrence Goldstein, of New York's Santa Monica Partners, is a money manager who specializes in pink sheet investing (FORBES, *Dec. 28, 1987*). By and large, the 17,000 stocks that make up his universe have thin floats and are infrequently traded. Goldstein is the first to emphasize that these waters can be treacherous. Most pink sheet stocks are essentially illiquid; information can be difficult to come by; uncommon patience is a must; ditto exhaustive research. Just over a year ago Goldstein singled out seven stocks he owned and thought were attractive. They were Adrian Steel Co., B. Manischewitz Co., Thermo National Industries, Hayward Industries, Kiddie Products, William Carter Co. and Sprouse-Reitz Co. Thirteen months later only one, Sprouse-Reitz, had dropped. Adrian more than doubled and Carter was acquired. Overall, Goldstein's portfolio was up 35% in calendar 1988.

What thinks Goldstein now of the six survivors? "I'd buy them all again today," he replies. For Adrian Steel (226,000 shares outstanding), Goldstein's looking for earnings of at least $16 a share in fiscal 1989 (ending Sept. 30). Recent price: 165. At $30 million (sales) B. Manischewitz Co., a manufacturer of kosher foods, earnings for

the fiscal year ended July 31 rose 27%, to over $55 per share. The company has hired Shearson Lehman Hutton to help it raise the value of its shares. There are 53,000 outstanding shares, recent bid 800. Thermo National is selling its heat-tempering division for cash and may pay out the proceeds to shareholders. (There are 240,000 shares outstanding.) In December 1987 the bid was just 3; recently it was up to 4. The bid on Nasdaq-listed Kiddie Products has risen from 19 to 25—still well below Kiddie's "highly liquid" book value of $34 a share.

Sprouse-Reitz Co.? This variety store chain based in Portland, Ore. was 21½ when Goldstein mentioned it to FORBES. It's now around 20. But book value, says Goldstein, is $41 a share, and current assets minus all liabilities come to $25 a share. There are 1.4 million Nasdaq-listed shares.

Pink sheets, anyone?

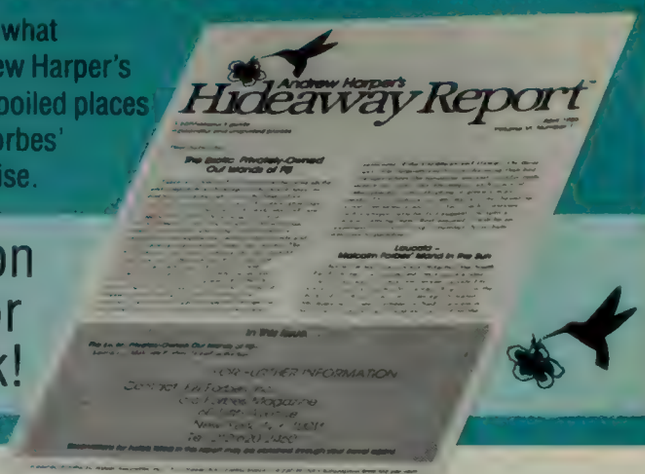
Son knew best

In 1981, when Peter Fischer replaced his father as chief executive of Medalist Industries, Inc., the Mequon, Wis.-based company was in more than 25 businesses—and earning just 24 cents a share, versus a record $2.35 a share in 1979. Fischer began lopping. Gone are water skis, an insurance agency, bicycles and more. Medalist now derives most of its sales, an estimated $102 million in 1988, from making insulated underwear and turtlenecks, machine tools, engines and fasteners.

All this restructuring has attracted outsiders. Riverway Securities Co. Partnership, the investment arm of Josephine Abercrombie, whose family controls Cameron Iron Works, owns 9.9% of Medalist's 2.3 million shares. Last April Riverway offered $20 a share for the rest. Medalist said no. A month later, a group led by New York City surgeon Michael Katz, with a 15.2% stake, proposed a $21-a-share buyout. Also rejected. Since then the stock has dropped sharply, to a recent o-t-c price of 14¼.

Money manager Hugh Denison of Milwaukee's Heartland Value Fund expects more action. He thinks Medalist will earn at least $1.75 a share this year, up from around $1 in 1988. And the company is selling below its stated $17-a-share book value. One danger: a thin float. Another danger: Both the Katz and Riverway groups are underwater in the stock, so greenmail is always a possibility, though in Denison's opinion unlikely.

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper's exclusive guide to unspoiled places says about Malcolm Forbes' exotic Fiji Island paradise.



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"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

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"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Seventy years ago in FORBES

(From the issue of February 8, 1919)

"When, oh when, will plutocratic men and women learn the wickedness of flaunting the grossest and most foolish extravagances in the faces of the poor? The picture sections of the Sunday newspapers published a photograph of a woman wearing a gorgeous fur coat, with this printed underneath: 'Coat of Russian sable made for Mrs. William E. Corey, formerly Mabel Gillman, actress, wife of the steel manufacturer, at a cost of $75,000, from carefully matched skins for which the world was searched through many months.' How many anarchists, how many bolshevists, how many socialists is the wholesale printing of this untimely picture and this boast going to breed?"

Students and revolutionary soldiers fight police in the streets of Petrograd

Sixty years ago

(From the issue of February 1, 1929)

"Speculative investment has cooled, somewhat. This, however, is attributable in at least some measure to the extraordinary prevalence of influenza among wealthy stock operators. Some of the most aggressive have been laid aside and are, naturally, more concerned about regaining their strength than about manipulating stocks."

"There has been such a rush of business in motor vehicles since the spring of 1928 that there is question as to how long the top speed can be maintained. With no exceptions, the major elements in the automotive industry have put themselves in a position to produce more units, and the trick is going to be to sell a heavy enough percentage of the potential output."

A FORBES ad recalls, 110 years later, the first transcontinental rail link

Fifty years ago

(From the issue of February 1, 1939)

"Latest application of photography to office problems is a boxlike unit, little larger than a standard typewriter, which opens up new possibilities in the low-cost reproduction of documents, letters, reports, charts or anything of that nature. All the operator does is lift the lid, place the document to be copied on a flat surface within, close the lid, and turn on the electric current. Exposure is automatically timed. . . . An in-built color filter automatically compensates for tonal differences; colored charts, signatures, date stamps and pictures are reproduced in the proper shades of grey. The machine can turn out up to 125 copies an hour."

Twenty-five years ago

(From the issue of February 1, 1964)

"Many top airline bosses are either packing their retirement bags or getting ready to. Latest changes include a new boss at last year's end for Eastern (ex-TWA Vice President Floyd Hall) and, last month, a new president at American, Marion Sadler, replacing C.R. Smith, who has run the line since 1934. . . . Another old-timer, United's William (Cap) Patterson, is apparently going to hand over the CEO job there to President George Keck."

"Last month the British branch of the house [of Rothschild] was getting into high gear one of the more ambitious projects in its recent history: development of one of the last great hydroelectric power sites on earth. Its location: Canadian Labrador on the fringes of the Arctic Circle. [There] a Rothschild-sponsored company proposes to generate electricity, move it 1,100 miles [to] New York."

Ten years ago

(From the issue of February 5, 1979)

"The new leadership in Peking hopes to transform a talented but desperately poor country into a superpower by the turn of the century. If it goes too slowly, it risks barely keeping up with population growth. If it goes too fast, it risks stirring immense forces that could bring it down. After years of self-imposed isolation, China's present ruling group has taken a major risk. It has finally opened its doors to the U.S., Japan and Europe."

"Just when many people thought the takeover flames were being doused by federal opposition and by Teddy Kennedy's threats to have bigness declared badness, along comes $4 billion American Express Co. with an $830 million offer to buy McGraw-Hill, the giant publisher. Meanwhile, the word from the Capitol was that Kennedy's antitakeover bill had scant chance of passing this session of Congress. So, apparently, the game isn't over, and 1979 could be another great year for arbitrageurs. . . ."

"Swashbuckling war correspondents are not the only newsmen who walk in peril, at least in the Philippines. Teodoro F. Valencia, that country's best-known columnist and one regarded as a leading spokesman for its president, Ferdinand E. Marcos, has advised businessmen who are 'harrassed' by reporters to shoot them. Some newsmen, the *Manila Express* columnist charged, were really 'foreign business, trade or intelligence agents' and when they 'intrude into private business and threaten business with adverse publicity, they deserve some violent reaction.' "

Frank Shakespeare

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FLOYD V. FILSON

So much one man can do that does both act and know.
ANDREW MARVELL

Every man has a right to be conceited until he is successful.
BENJAMIN FRANKLIN

Only madmen and fools are pleased with themselves; no wise man is good enough for his own satisfaction.
BENJAMIN WHICHCOTE

The average man plays to the gallery of his own self-esteem.
ELBERT HUBBARD

To know that we know what we know, and that we do not know what we do not know, that is true knowledge.
CONFUCIUS

I care not what others think of what I do, but I care very much about what I think of what I do: That is character!
THEODORE ROOSEVELT

Conceit is God's gift to little men.
BRUCE BARTON

Thoughts
on the Business of Life

"I don't feel myself that I know it all, but I have enough conceit to be successful." That observation was made by a businessman in his 30s who was making notable headway, although his path bristled with difficulties. Business places no premiums on shrinking violets. Employers prefer men who have self-assurance, forcefulness, go-aheadness, men who know their jobs and know that they know it.
B.C. FORBES

Skill and confidence are an unconquered army.
GEORGE HERBERT

Real difficulties can be overcome; it is only the imaginary ones that are unconquerable.
THEODORE N. VAIL

Our aspirations are our possibilities.
ROBERT BROWNING

Calm self-confidence is as far from conceit as the desire to earn a decent living is remote from greed.
CHANNING POLLOCK

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Arrogance in persons of merit affronts us more than arrogance in those without merit. Merit itself is an affront.
FRIEDRICH NIETZSCHE

Anybody can be nobody, but it takes a man to be somebody.
EUGENE V. DEBS

There is no excellency without difficulty.
OVID

All men who are really great can afford to be really human and to be shown so.
GAMALIEL BRADFORD

I love being superior to myself better than [to] my equals.
SAMUEL TAYLOR COLERIDGE

A Text . . .

Professing themselves to be wise, they became fools.
ROMANS 1:22

Sent in by R. David Wahlfeld, Williams, Ariz. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

I am right and therefore shall not give up the contest.
RUTHERFORD B. HAYES

It's great to be great, but it's greater to be human.
WILL ROGERS

We judge ourselves by what we feel capable of doing, while others judge us by what we have already done.
HENRY WADSWORTH LONGFELLOW

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Chairman of the Board and
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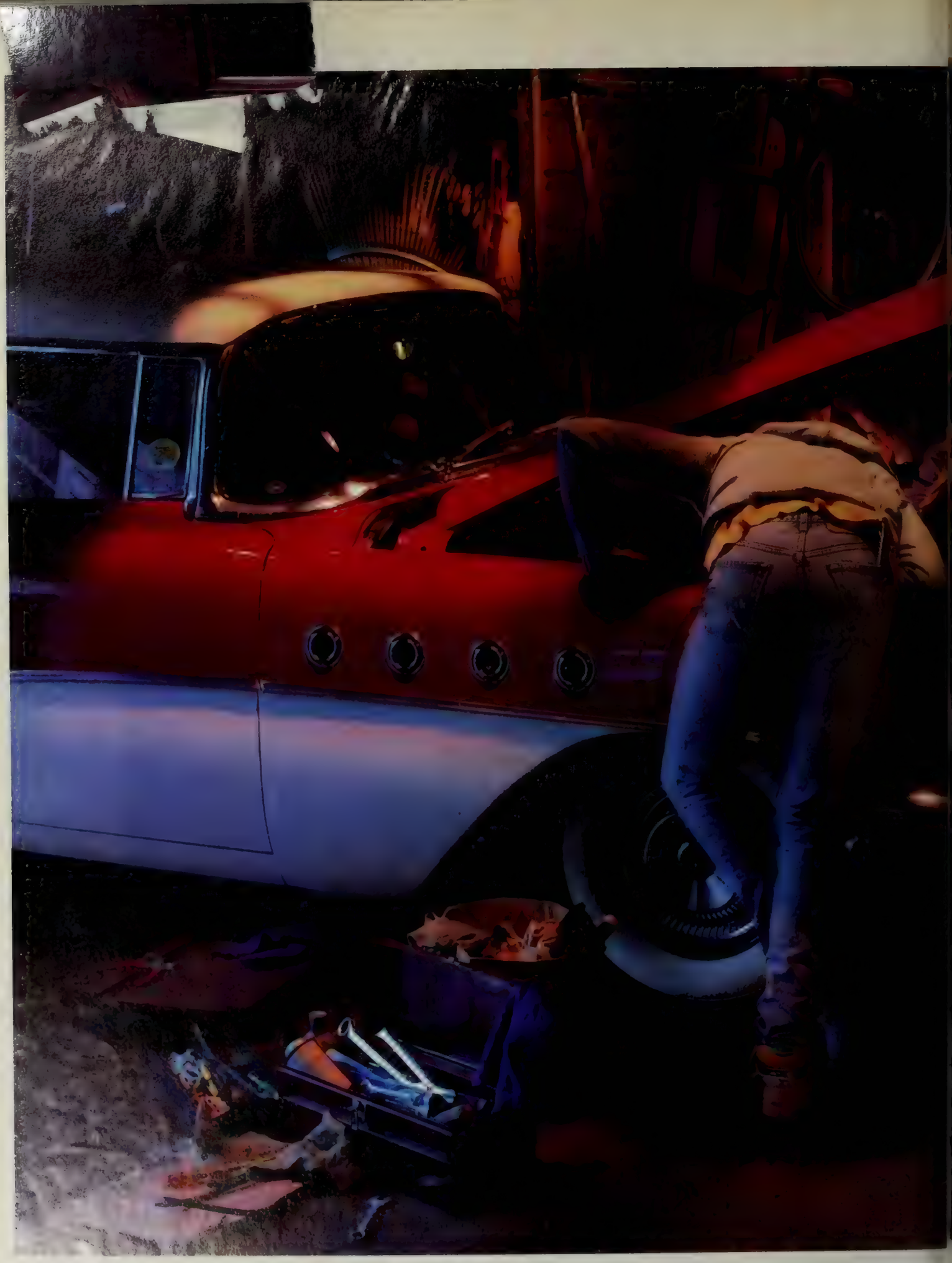

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Forbes

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FEBRUARY 20, 1989
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NUMBER 4

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Side Lines

Would you buy an orchid from this man?

It's a funny thing about swindles. Smart, moneyed people are as vulnerable as the poor and uninformed. Scams designed to milk the elite are generally more polished and sophisticated than your run-of-the-mill ripoff, but the basic principles are always the same. As in George Bissell's orchid "investments" peddled to Palm Beach socialites and described by Richard Stern in "Gentleman scamster," on page 104.

The brothers Gelardi showed other talents running Shape Inc. In "Charming their bankers," on page 43, Richard Behar tells how they talked some of our biggest banks into lending tens of millions of dollars to their failing enterprise. Successful both operations were, at least for a time. But original? No. The 70-year-old shadow of Charles Ponzi hangs over both.

Citizen Kane, meet Adam Smith

Have confidence in Adam Smith. Trust the free market to bust monopolies, nourish entrepreneurship and create jobs. That's the philosophy behind every page of FORBES magazine, and it's the message of Subrata N. Chakravarty's cover story in this issue, "Citizen Kane meets Adam Smith," page 82. For years, smart money regarded newspapers as licenses to print money, since local merchants had little choice but to advertise in their pages. Maybe that was true when there were 95 dailies circulated for every 100 U.S. households. But competing news media have eaten into newspaper markets, reducing market penetration sharply while offering advertisers alternative ways of displaying their wares. In short, competition has eroded what looked like virtual monopolies in many communities.

So, are newspapers dying? Far from it. But newspaper publishing has become a business where it's harder to make a buck and where the difference between good management and mediocre management quickly translates to the bottom line.

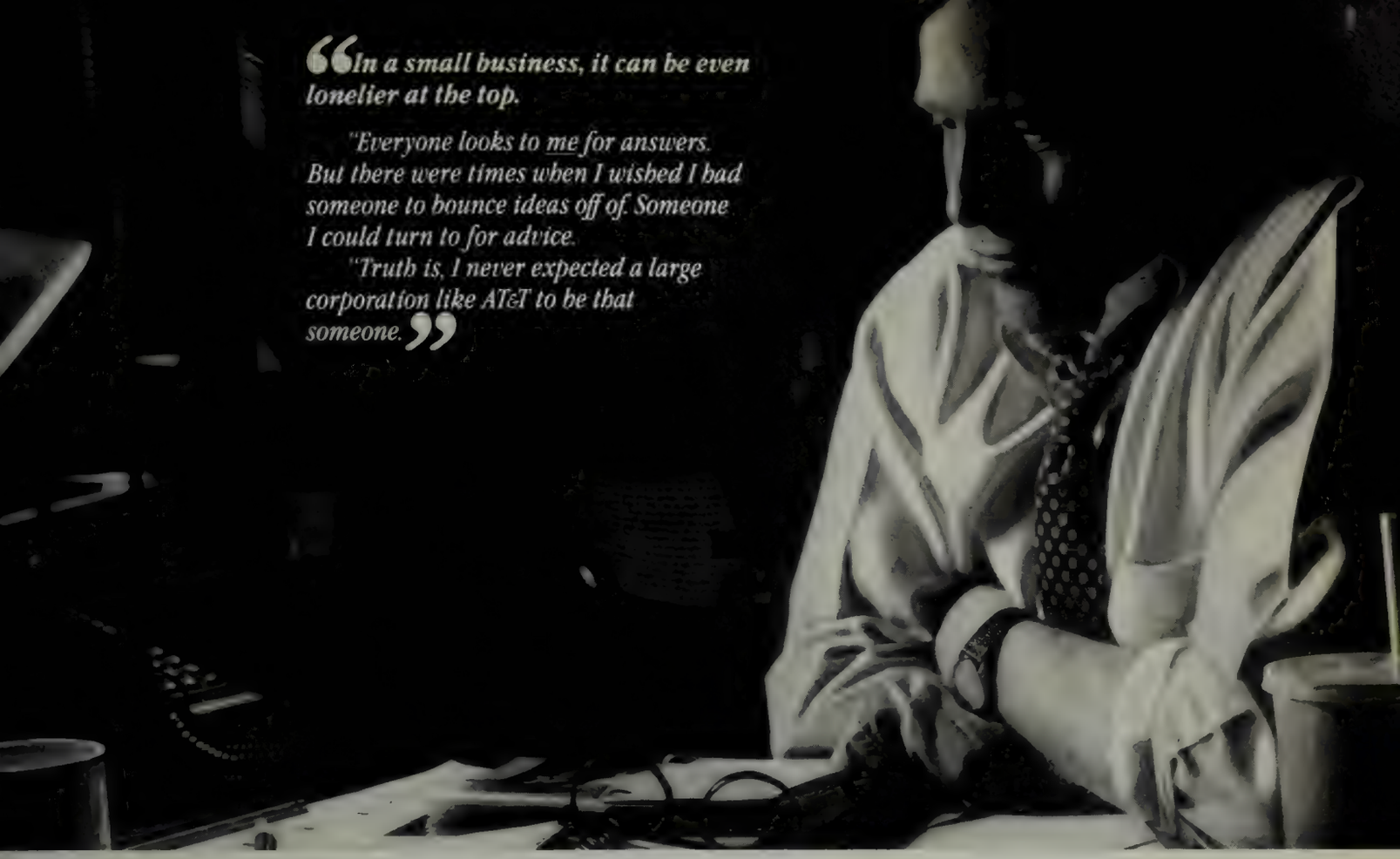
Poor uncle, he cosigned some bad loans

Let's face it: We in the media love crises. They give us something to write about and make readers eager to read us. Which leads newspeople sometimes to see crises where there are none. Like in the current hullabaloo about the savings and loans. Fact is, no depositor will lose a dime, and the bill for the losses has already been assumed by Uncle Sam. Stupid policies, yes. Crisis, no. For a realistic assessment, read "The money has already been borrowed," on page 38.

New and improved buggy whips

Speaking of reality versus perception, George Gilder's article entitled "IBM-TV?" deals with the general feeling of unease about the probable Japanese domination of the developing market for high-definition television. Yes, Gilder says, the Japanese will probably win the market, but it will be a hollow victory. They will be coming out with a new and improved buggy whip just as the world enters the auto age. His explanation begins on page 72.

James W. Michaels
Editor



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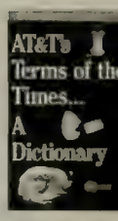

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Oct. 20, 1986

Alex Au

FORBES reported good news and bad news about entrepreneur Alex Au's Vitelic Corp. 2½ years ago. We applauded the tiny ($6.4 million sales) company, one of just three U.S. firms to make the DRAM chips that are the heart of most advanced computers. And we foresaw healthy growth for Au's venture. At the same time, we lamented that Au's principal backers were from Japan and Korea, and that Vitelic's production would be done in the Orient. Couldn't American money be found to back domestic production of DRAMS?

Not enough to bring Vitelic's production plans home. Last year's $39 million private placement for Vitelic was the high-tech industry's largest, but more than half of the money for Vitelic's new wafer plant came from Taiwan. Not surprisingly, that's where the plant will be situated.

Au says he would like to build a plant in the U.S. eventually. As the industry becomes more sales- and marketing-driven, he says, it is important for the U.S. to maintain domestic production of DRAMS. "If you don't control your own chip production, you become a second-class citizen in the electronics industry," he warns.

In the meantime, Au is doing just fine: Privately held Vitelic Corp. could top $60 million in annual sales in 1990.—**Edward F. Cone**

Third down and long

Dec. 14, 1987

Cloyce Box

When FORBES last checked in with Cloyce Box, just over a year ago, the former pro football player and current general partner of the OKC Limited Partnership was in a tight spot. A group of dissident limited partners, led by Idaho potato king J.R. Simplot, was trying to buy Box out of his oil and gas production venture. Their complaints against Box, who had earlier run into pricing-related trouble while managing a predecessor company to OKC, ranged from self-dealing to generating huge expenses at the company's lavish headquarters. We thought that the colorful ex-Detroit Lion would "be forced to punt."

Instead, he's running a trick play. Last month, as a court battle with the Simplot group over voting rights ground on, Box announced a plan to swap up to one-half of OKC's outstanding partnership units for a new issue of subordinated debentures. Who stands to benefit the most? Box himself, who, if he doesn't swap his own 15% stake in the company, will find his voting power effectively doubled. "It looks like old Cloyce is looking for a way to grab the company cheap," grumbles John Ferris, a broker at Dallas' Underwood, Neuhaus & Co., who holds 30,000 units of OKC stock. The dissident group is likely to counter the move.

And the smooth-talking Box? He replied to questions with a terse "No comment."—**E.F.C.**

Benjamin Rondel Archer

Crowd pleaser

Nov. 30, 1987

George Shinn

George Shinn was something of a hero in Charlotte, N.C., FORBES reported 15 months back. His accomplishment? Landing a new professional basketball team for the city, and beating out several larger towns to do so. Shinn sold the NBA on Charlotte by selling over 8,500 season tickets even before he was granted the franchise. Impressed by his marketing skills, we said the new franchise would be a moneymaker from the opening tip-off.

We were right. Shinn's Hornets, though beatable on the playing court (11 wins and 30 losses, at midseason), are leading the NBA in attendance, drawing almost 23,000 fans per home game. That's 1,500 more per game than the league's second-biggest seller, Detroit, has managed. (The league's other expansion team, the Miami Heat, has averaged a mere 14,900 fans per game.) Shinn sealed the city's devotion by getting his team involved in community affairs, even writing charity and civic involvement into some players' contracts.

With marketing smarts like that, the Hornets are expected to make profits in excess of $6 million this season and look to be a success for years to come.—**E.F.C.**

Dennis Oda

The price was right

Aug. 8, 1988

Robert Reed III

Seven months ago FORBES called Honolulu-based Pacific Resources Inc. a takeover target. The oil refiner and gas utility's main stockholder, Alexander & Baldwin, another Hawaiian company, admitted it would sell out if the price were right. Last month Australia's Broken Hill Proprietary made a deal no shareholder could refuse and acquired Pacific Resources for $395 million. Pacific's chief executive, Robert Reed III, who is credited with turning the 85-year-old utility company into a leading oil refiner in the islands, will remain in charge under Broken Hill.

But things at Pacific will hardly remain the same. Its new owner, intent on staking its claim in the Pacific Basin, will radically expand the company's traditional base of operations. Thus, Pacific Resources will assume all of Broken Hill's downstream refining and marketing operations, with Broken Hill providing an extra 200,000 barrels a day of high-grade crude for the company's new refineries. With that secured oil supply, Pacific can increase its refining capacity and distribute excess crude to the mainland U.S., a departure from its traditional islands-based distribution strategy.

With fiscal 1988 revenues of over $9 billion, operating profits of $790 million, and manageable debt, Broken Hill has the ability to inject Pacific with all the capital it will need to establish itself as a major player in the refining business.—**Evan McGlinn**

This is some of the most productive land in the country.

It is *Dinetah,* The Land of The People, the Navajo People. It is wild and beautiful. And harsh.

Growing corn in this land also grows character in The People. They know about husbanding resources carefully, and about hard work. Their skilled hands make beautiful rugs and jewelry.

They also make intricate electronic assemblies.

About 400 Navajo workers and managers in Fort Defiance, Arizona, are building upon a partnership with General Dynamics that stretches back twenty years.

Year after year, our Navajo-made electronics have proven to be first-rate. Our Navajo workers have proven to be able and dedicated. And our Navajo plant has proven to be profitable, for us and for the Navajos.

In 1989 we will open our second plant on Navajo land, employing nearly 200 more Native American workers. The land of the Navajo may look wild and harsh.

But for business, it is some of the most productive land in the country.

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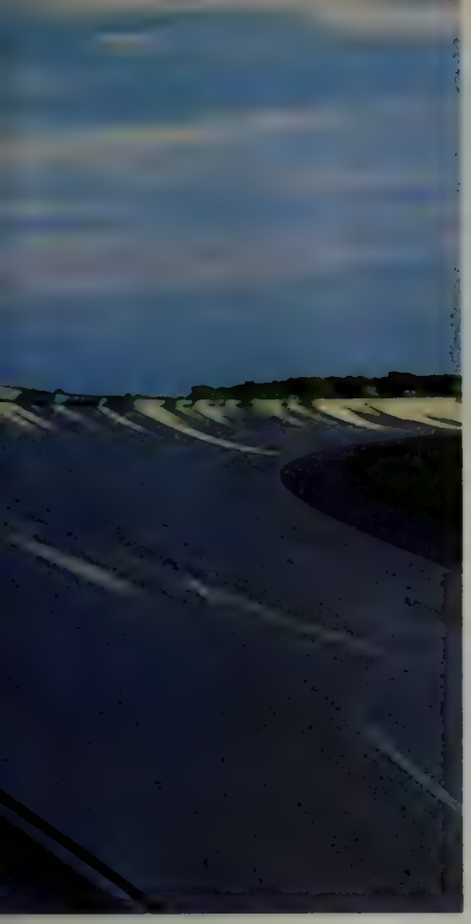

Designing an automobile nterior on a test track at speeds that most people only experience thousands of feet above the ground may seem somewhat extreme.

But not if you take into consideration the most basic aw of design:

Form follows function.

In other words, what good s a car capable of going over 25 MPH if the interior sn't up to speed?*

A rather obvious insight. But one that may just have escaped many of the automakers who consider themselves competition for the Acura Legend Coupe.

Slide into the cockpit and you'll immediately be aware of the fact that this is an environment where form really does follow function. Grip the wheel in the classic 9 and 3 driving position and notice that the necessary controls—the cruise control button to the remote stereo selector—are right at the tips of your fingers.

Right where they should be.

Note how smoothly and surely the switches and controls engage. Not only was their placement carefully considered, but also the way they feel when you use them. So whether something pushes, pulls, slides, clicks or turns, its response is distinct. Tactile.

Observe the simplicity of the dash. White-on-black analog gauges that are easy to read at a glance. So you can spend your time concentrating on more important things. Like the road in front of you.

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And no matter how far you drive, you'll never find yourself fidgeting. The multi-adjustable driver's seat includes lumbar and thigh supports designed to minimize fatigue over long distances. As well as lateral support to keep you firmly in place during cornering.

Which means you'll feel as comfortable at the end of your journey as you did when you pulled out of your driveway.

You may never drive your Legend Coupe at 125 MPH. But the fact that we did will make driving it at 55 MPH all the more enjoyable.

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ACURA

Precision crafted performance.

Forbes Informer

Edited by Gretchen Morgenson

Rolling Stone

Roger Stone, chairman of Stone Container, puts his money where his mouth is. And in this case that's not with Drexel Burnham Lambert. When Drexel copped its pleas in December, many a loyal client reportedly vowed to stick by the firm. Not so Stone, a longtime good customer whose Stone Container has raised close to $1 billion through Drexel for itself and for several joint ventures it's in, and used the investment firm as adviser on a big deal in 1987. At the time, Stone publicly stated he probably would not use Drexel again. When Stone Container announced in late January its $2.2 billion acquisition of Canadian papermaker Consolidated-Bathurst Inc., the M&A adviser for the purchase was First Boston.—**Thomas Jaffe**

Those brutish Brits

Mass firings at investment firms are wracking London's City. Carnage is everywhere: Old-line brokerages bought three years ago by merchant banks eager to profit from financial deregulation are closing up. Morgan Grenfell reportedly cut 450 of its staff, Citibank shut down its government bond department, and Chase did the same. As many as 50,000 traders and brokers could lose their jobs in all; so far, about 10,000 have been let go. Some hear over the intercom that they've been fired, others are called to a meeting, fired, and return to find the contents of their desks in a bag by the door. It's that bad. One fellow, told of his firing while on vacation in Spain, was asked to return the keys to his company car. He obliged, but reportedly left the car in Madrid. In other cases, disgruntled traders are said to have scrambled their former firms' computer systems just prior to departure, wiping out records of the prior day's trading. Both sides are showing precious little of famed British good manners.

GE plants the flag

Though it didn't make the millions it thought it would televising the Olympic games in Seoul, NBC bid big bucks—$401 million—to win television rights to the 1992 summer games in Barcelona. That's a lot of money, but apparently not too much for Jack Welch, chairman of NBC's parent, General Electric. Gossip at CBS says Welch is convinced that Spain is the next hot business spot and that the chairman wants to make GE's presence known there.

Gone from Southmark, but not forgotten

Gene Phillips and William Friedman have been kicked out as top dogs of Big Board-listed Southmark Corp. But don't feel too sorry for them. Phillips and Friedman reportedly agreed to resign and sell their 23% stake in Southmark, but they retained control of National Realty, a publicly traded limited partnership in which they, along with Southmark, are the general partners.

National Realty holds substantial assets, somewhere between $600 million and $800 million. Best of all, for Phillips and Friedman, the limited partners are individual investors less likely than institutional types to recognize—and defend themselves against—the personal spending excesses that characterize Phillips and Friedman's management style. Discredited but not disinherited, Phillips and Friedman could have a field day.

Van Gogh going public?

Australian wheeler-dealer Alan Bond owns mining companies, television stations and breweries, but his handsomest asset adorns the wall on the 51st floor of his Palace Hotel office building in Perth: Van Gogh's "Irises." Bond's Dallhold Investments Ltd. paid $54 million to buy the picture in 1987. But can the heavily indebted Aussie hang on to it?

Sources close to Bond say selling "Irises" is the last thing he'll do. Bond is said to be considering floating stock in a public company that would hold shares in the painting and purchase other high-priced pictures as well. But will the other shareholders get to hang the thing on their walls?

P. Robert Garvey/Black Star

Alan Bond, Australian financier
Pssst! Wanna buy some "Irises"?

Background check

For the last seven months Abbey J. Butler, 51, a principal with New York-based Centaur Partners, has been trying to grab Philadelphia-based Pennwalt Corp., an old-line chemical producer. Butler's past, it turns out, is as colorful as Pennwalt's is drab.

In 1971 and 1973 Butler was censured by the National Association of Securities Dealers for mishandling a public offering. In 1976 the SEC got a permanent injunction against him for a scheme in which he allegedly got margin credit from a bank far in excess of legal limits. Butler then moved into the mail-order business; that venture collapsed in 1978. After dickering with the court, Butler filed for personal bankruptcy in 1983.

Six years later Butler's bounced back, making a $100-per-share offer for Pennwalt Corp.'s 8 million shares. The offer is being underwritten by PaineWebber and Oppenheimer & Co., which apparently have no worries about Butler's interesting past.

Not so Edwin Tuttle, Pennwalt's chief executive officer. He filed a civil lawsuit against Centaur in December, charging that Butler omitted some of the salient details of his past when he filed with the SEC to take Pennwalt over. "I just don't believe the facts about Mr. Butler's past make one feel comfortable about his controlling the destiny of Pennwalt," says Tuttle.

Academia, it seems, has lesser scruples. In 1986 Butler, class of '58, donated $1 million to build a student

center for Washington, D.C.-based American University, and the Abbey Joel Butler Pavilion was dedicated a year ago. Next door is a complex honoring another financier: the Adnan Khashoggi Sports & Convocation Center.— **Lisa Gubernick**

The Stifel shuffle

St. Louis regional brokerage Stifel, Nicolaus & Co. saved rival Rowland Simon & Co. from sinking last November when the two firms merged. Simon, hemorrhaging since the market crashed, was happy to be absorbed by Stifel. Small reward for its rescue: Stifel's stock has languished around $6 ever since.

But the shares could soon come to life: Stifel could now be the subject of a buyout bid. Regional brokerage B.C. Christopher has put Stifel's stock on its restricted list, forbidding brokers from buying it for themselves or their clients. Such restrictions often result when a firm's investment bankers know that a buyout bid may be about to take place.

Who's the probable bidder? One possibility: Life Investors Inc., a subsidiary of Aegon N.V., a Dutch insurance company, that already owns $10 million in Stifel convertible notes. Stifel has been the subject of a buyout bid before. Kuhn Brothers and Laidlaw, an investment firm, offered $15 a share for the firm in mid-1987. Stifel turned the bid down and Kuhn upped the ante to $16.50; but before Stifel could act, the market crashed and all deals were off. Now Stifel will be lucky to wring $10 out of a buyer, regardless of who it is.

Polar's hot air

The folks at Polar Molecular, a Saginaw, Mich. startup that makes fuel additives, are mighty proud. Their company made the year-end list of o-t-c stock winners, catapulting from 62 cents a share to $4 during 1988.

In January Polar jumped again, to $5.25. That gives the company, which was a blind pool just three years ago, a market value of $110 million. Sales last year were $600,000, but the company lost $1.8 million.

What's the story? Wayne Huizenga, cofounder of Waste Management and currently chairman of Blockbuster Entertainment, and three pals bought 3 million common shares of Polar for a total of $2.4 million, or about 80 cents per. The same deal also brought them 3 million warrants. Press releases went out heralding the investment.

We wonder whether they will issue any press releases when Huizenga wants to get out.

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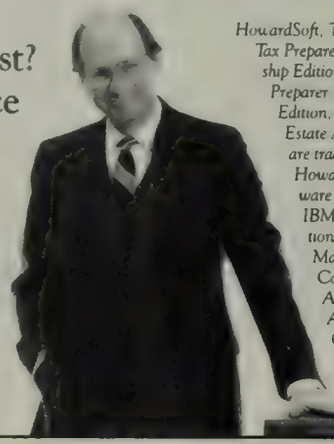

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Readers Say

The culprit

SIR: So Rudolph Giuliani was seen "brandishing a book of Emily Dickinson sonnets" *(The Informer, Jan. 23)*. Emily Dickinson wrote no sonnets.
—Christine Bird
Atlanta, Ga.

The mistake was made by an excessively enthusiastic editor. Editors, like surgeons, must be very careful when they take the knife!—ED.

To tax or . . .

SIR: Re a 50-cent-a-gallon tax on gas *(Fact and Comment, Jan. 23)*. In Manhattan, transportation is readily available. In Montana, the grocery store may be 50 miles away.
—Richard F. LeBlond
Livingston, Mont.

SIR: It always irks me to hear one of the Kennedys or some other zillionaire, and now you, advocating raising taxes. I believe most voters read Bush's lips and voted for no new taxes.
—Jon M. Glahn
Camanche, Iowa

SIR: For those who claim a 50-cent tax too regressive, I offer these silencers:

The very low income group does not own cars, thus pays no tax. The low income group drives fuel-efficient autos. The middle income group commutes farther, drives more and thus would pay more tax. The high income group drives gas-guzzlers and would pay the highest tax.
—Matt Mimmnger
Bellingham, Wash

SIR: A per-barrel import fee would help our domestic oil economy and keep the gas tax as a user fee for highway maintenance.
—John M. Koger Jr
Topeka, Kans

SIR: Better yet, a national lottery.
—Ronald B. Williams
Pasadena, Calif

SIR: It's time for a federal sales tax.
—Charles W. Steadman
President
National Debt Repayment Foundation
Washington, D.C.

SIR: Let Congress reduce the national debt or else their pay.
—George Petrell
Buffalo, N.Y.

SIR: I am unwilling to sacrifice my hard-earned standard of living to bail out fraudulent S&L managements.
—Carness F. Ramey
Allegan, Mich.

My hometown

SIR: Re "Ownership counts" by Kenneth L. Fisher *(Nov. 14, 1988)*. I've never read a more misleading comment—i.e., that Wal-Mart created 200,000 jobs. Mr. Fisher must have never been in a small town before and after a Wal-Mart store comes. Many of their employees are part-time, poorly paid women. Also in small towns like ours (pop. 9,000) the Main Street died, cutting the town's property tax income and putting far more full-time people out of work than the part-time jobs created.
—Robert M. Hoffman
Olney, Ill

Acquiring goodwill

SIR: Re "Ill will" *(Jan. 23)*. This article would have us believe that the British practice of deducting goodwill from equity is without problem, since it only affects the company's balance sheet and not its income statement.

As recent events in the U.K. will show, this practice has driven the equity of acquiring companies so low that the ratio of debt to equity in their capital structure became alarming. They are therefore revaluing their existing intangible assets in order to restore some of the equity lost in the acquisition process.

Both the U.K. and U.S. practices produce a serious mismatch on the balance sheet, which is subject to misinterpretation.
—Branko Terzic
Aus Consultants
Milwaukee, Wis

Bear den

SIR: Your headline that it is dumb and costly not to buy stocks should be reworded to leave out "not" *(Fact and Comment, Jan. 23)*. I bought stocks during the early Sixties, the early Seventies and much of the Eighties, held them for years, and finally sold many out at substantial losses. I have tried mutual funds and different brokers. All resulted in losses.

Based on my experience, neither my wife, son nor sister will ever invest in stocks.
—John M. Hunt
Falmouth, Mass.

Cap's apologia

SIR: Caspar Weinberger's apologia for the bloated U.S. military budget *(Jan. 23)* is hopelessly out-of-date.

Europe has a gross national product 2½ times that of the Soviet Union and a population equal to that of the entire Warsaw Pact. Japan is the world's number two economic power, yet spends an anemic 1% of GNP on the military. South Korea has twice the population and five times the GNP of communist North Korea, its only plausible adversary.

The time has come to gradually devolve many of America's global military responsibilities onto prosperous and capable allies.
—Ted Galen Carpenter
Director of Foreign Policy Studies,
Cato Institute
Washington, D.C.

SIR: To have an article on cutting defense spending by Weinberger is like one on church fundraising from Jim and Tammy Bakker.
—Jack Schmidt
Camp Hill, Pa.

SIR: Publisher Weinberger's "Can we trust this nice Mr. Gorbachev?" was answered in 16 words by Frederick the Great in 1747 when he told his generals, "Skepticism is the mother of security, and fools trust their enemies while prudent persons do not."
—Joseph Lewis Fant III
Columbus, Miss.

SIR: Don't cancel our subscription. After all, "one page does not a magazine make."
—D. Corrine Howard
Fremont, Calif.

SIR: The addition of Cap is a real coup.
—Ralph E. Bailey
Retired Chief Executive Officer,
Conoco Inc
Stamford, Conn.

We think our First Class Service is the best in the business.

Too bad more people don't take advantage of it.

TWA's First Class Sleeper Seat.

When you stretch out in TWA's First Class Sleeper Seat, we urge you not to get too comfortable. At least not right away. We wouldn't want you to miss any of the amenities that make our First Class so opulent. And by the way, only TWA offers its luxurious sleeper seat on every domestic and international widebody flight.

TWA's First Class Service.

Before takeoff, you'll be offered complimentary cocktails. Then, on international flights, come the hors d'oeuvres. Everything from American Sturgeon Caviar to Pâté de Canard.

And on all flights you will discover gourmet entrées served to you on china. If you can, save room for dessert or an after-dinner drink.

You won't be disappointed.

TWA's Personal Service Commitment.

TWA is determined to bring you the best personal service in the airline industry. So we've assigned an In-Flight Service Manager to every flight to make sure your trip is as hassle-free and comfortable as possible.

In addition, our Chairman of the Board has put together a Quality Control Team. A group of 30 very picky people who fly TWA, assessing the service they receive, on a checklist of over 100 service items. They report directly back to him with their comments, good and bad, And if anything needs improvement, it gets improved. Fast.

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FIND OUT HOW GOOD WE REALLY ARE.℠

TWA

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At Four Seasons we're aware that when you're away on business your days can be even more pressure-packed than those spent at the office.

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And that's just the beginning.

Each and every one of our resort locations have been carefully selected for their environmental beauty and peaceful serenity.

Yet all Four Seasons Resorts offer a wide variety of recreational activities for you to enjoy at your leisure.

Needless to say, at our resorts you'll be pampered by all the attention you've become accustomed to receiving at our hotels.

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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

HUGE BUYOUTS AND TAKEOVERS WILL MAKE LITTLE ONES

out of big ones. To reduce to manageable proportions the mammoth debt taken on to buy RJR, Henry Kravis 'n' Co. will have to sell off some big hunks, which might well be broken into smaller chunks.

Bob Campeau's company, struggling to pay for his vast department store acquisitions, has already sold off Brooks Brothers, Filene's, Foley's and I. Magnin.

Giant acquisitions often—and leveraged buyouts inevitably—involve selloffs and spinoffs. The old Great Bigs and New Bigs swiftly become less so.

The winning corporate cards are being reshuffled, the players becoming more numerous.

THANKS TO HIS STEWARDESS GIRLFRIEND

M. Carrato-Gamma Liaison

our seriously strained relations with Greek Prime Minister Papandreou's leftist government may soon change for the better. With that scandal and surfacing Cabinet corruption greasing the skids, terrorist-tolerating Andreas may soon slide into richly deserved oblivion.

PEACE FORCES ARE NOT WORTH $94 MILLION TO US?

In one of their most brilliant selections, the Nobel Peace Prize-givers awarded the prized Prize ($340,000) last December to the U.N. peacekeeping forces.

Over the years a half-million armed forces from 58 countries have served as U.N. troops to monitor trucing combatants around the world—currently at the India-Pakistan border, in Angola, the Golan Heights, Lebanon, Cyprus, the Persian Gulf—and now Afghanistan. Seven hundred thirty-three of them have died at their peacekeeping posts. If other promising war settlements take place, U.N. forces will be needed in southwest Africa, the Sahara and possibly Central America and Cambodia.

But you'll never guess who is pulling the rug out from under existing deployment of blue-helmeted peacekeepers, which almost insures there can be no further such missions.

We are.

The United States.

Congress adjourned in October without appropriating our $94 million share for maintaining these forces. (Additionally, we're $307.7 million behind in our pay-up of regular United Nations costs.)

We spent over $280 billion last year on our military and will spend another $290 billion this year. In major measure our gargantuan—and still escalating—national debt is the result of our defense spending. Yet, for a relatively tiny percent of that sum, we can sharply reduce the likelihood of these vast forces' and systems' being employed.

How do we light a little powder under the Congress?

NINE YEARS AGO WE OFFERED YOU $10,000

In FORBES' Oct. 27, 1980 issue we offered $10,000 to the reader whose crystal-balling forecasting came closest to estimating what the actual numbers for 37 economic yardsticks *(see table below)* would be ten years later.

As we enter the last lap of this decade, it's interesting to see who's closest to the latest currently available figures. We've scored each of the 660 contestants in the 37 categories on a scale that gives 10 points to anybody who predicted the exact number, down to 1 point for those missing by 22½%, and 0 credits to anyone wider of the mark than that. So if anybody hit the bull's-eye in all 37 categories, he scored 370 points.

At this writing, D.E. Quady of Berkeley, Calif. is in the lead, with 302 points. He/she was Right On in one category. Interestingly, R.W. London of Eden Prairie, Minn. had a phenomenally perfect score in four categories, but with 278 points, he/she is in 233rd place. Tied for second place are Y.B. Griffith of Santa Barbara, Calif.; Becky Kaufmann of Durham, N.H.; Jack Rankin of Round Hill, Va.; and John Welsh of Port St. Lucie, Fla.

Nine years ago we concluded with the observation that "Of course, 1990's $10,000 may buy a bit less than today's—but that's what the contest is all about, isn't it?" 1970's $10,000 is worth $3,400. A year from now it will be interesting to see what the prize will be worth and to whom.

	1970	1979	1989**
Value of $1	$1	54¢	26¢
Dow Jones industrials	800	838	1,200
Av daily NYSE volume	11.6 mil	32 mil	60 mil
Gold	$35/oz	$525/oz	$800/oz
Silver	$1.80/oz	$34.45/oz	$50/oz
Oil (Saudi crude)	$1.80/bbl	$24.00/bbl	$50/bbl
(daily US imports)	3.4 mil bbl	8.1 mil bbl	7.5 mil bbl
Sugar (5-lb bag)	65¢	$1.29	$2.00
Hamburger (lean chuck)	66¢/lb	$1.89/lb	$3.50/lb
(Big Mac)	49¢	95¢	$1.75
New home	$35,000	$74,000	$140,000
Home mortgage	8¼%	13%	12%
Prime rate	8½%	15%	14%
Six-month Treasurys	6.5%	12.5%	11%
Employed workers	81 mil	100 mil	115 mil
Unemployed workers	4 mil	6 mil	8 mil
Per capita income	$3,893	$8,800*	$14,000
Disposable income	$692 bil	$1.7 tril*	$3.2 tril

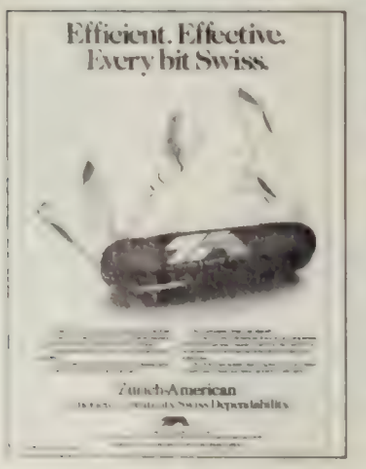
	1970	1979	1989**
GNP (actual)	$982 bil	$2.4 tril*	$4 tril
GNP (in 1970 dollars)	$982 bil	$1.3 tril*	$1.6 tril
Deutsche mark	25¢	58¢	63¢
Pro football teams	20	28	30
Operating steel mills	148	154	150
Shopping malls	12,170	19,201	24,000
Registered motor vehicles	105 mil	154 mil	175 mil
Federal budget	$197 bil	$547 bil*	$800 bil
National debt	$370 bil	$845 bil*	$1,200 bil
Consumer debt (excl mtg)	$101 bil	$310 bil*	$500 bil
Computers (US)	65,000	300,000	1.2 mil
Coast-to-coast call	75¢	21¢	20¢
First-class stamp	6¢	15¢	30¢
Credit cards	450 mil	579 mil	800 mil
Satellites in orbit	1,845	4,555	7,300
Lawyers	355,242	464,851	600,000
Stockbrokers	50,787	50,466	45,000
US population	203 mil	222 mil	240 mil
World population	3.6 bil	4.5 bil	5.4 bil

FORBES to be the final judge; no FORBES employees or their relatives are eligible *Estimated **Front-runner D.E. Quady's figures, with 10 months to go.

THE DIFFERENCE BETWEEN EINSTEIN AND EDISON

was 8 hours a day—Einstein slept 12 hours a day, Edison only 4 hours a day. What this proves, I don't know. But for sure Thomas was more alive 8 hours a day than was Albert.

"I WONDER WHICH OF THESE TWO HE FAVORS?"



Enclosing these two advertisements, reader Christopher Smith writes, "Given Mr. Forbes' interest in advertisements, I wonder which of these two ads, which ran in close proximity in FORBES, he favors?"

Of course, I like them both, especially given the perspicacity in their choice of media.

If pressed, I'd pick the four-color job. Among other reasons, it brings in 52% more revenue.

Which, of course, is a totally objective weighing of meritoriousness.

THERE'S A LIMIT TO THE AUTHORITY AND PRIVILEGES OF RANK

This was never made more clear than in this tale by Frank Koch in *Proceedings,* the Naval Institute's magazine:

"Two battleships assigned to the training squadron had been at sea on maneuvers in heavy weather for several days. I was serving on the lead battleship and was on watch on the bridge as night fell. The visibility was poor with patchy fog, so the captain remained on the bridge keeping an eye on all activities.

"Shortly after dark, the lookout on the wing of the bridge reported, 'Light, bearing on the starboard bow.'

" 'Is it steady or moving astern?' the captain called out.

"Lookout replied, 'Steady, captain,' which meant we were on a dangerous collision course with that ship.

"The captain then called to the signalman, 'Signal that ship: We are on a collision course, advise you change course 20°.'

"Back came a signal, 'Advisable for you to change course 20°.'

"In reply, the captain said, 'Send: I'm a captain, change course 20°!'

" 'I'm a seaman second class,' came the reply, 'You had better change course 20°.'

"By that time, the captain was furious. He spit out, 'Send: I'm a battleship, change course 20°.'

"Back came the flashing light, 'I'm a lighthouse!'

"We changed course."

A SAD BALLOON STORY

On occasion we have been able to contribute to a Worthy Cause a ride for two in a Capitalist Tool Balloon. Events of one sort or another keep busy the pilots of FORBES Magazine's Balloon Ascension Division. One wit once observed that we are the only outfit outside of the Catholic Church with an Ascension Division.

About one donated auction ride, we received this letter: "You might wonder why the Balloon Ride you graciously gave us was never claimed. It's a sad story; the winning couple had an argument shortly after that, split up, and the last I heard they were divorced. The Balloon trip is part of the property settlement."

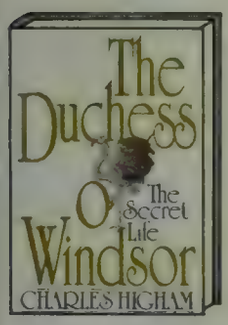
IF YOU ARE GOING TO BE

on the spot, pick it.

IF PUSH COMES TO SHOVE

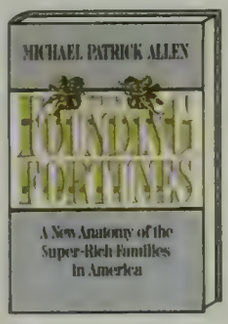
shove off.

BOOKS



● **The Duchess of Windsor: The Secret Life** —by Charles Higham (McGraw-Hill Book Co., $17.95). In addition to other faults, Wally was a spy for the Nazis and the Fascists, says the author. While this ambitious courtesan transformed *the* Admiral of the British Fleet into the third mate of an American tramp, I think The Duke and Duchess were too caught up in the fripperies of their meaningless lives to have been anything more than simplistically simpatico to our WWII enemies. There are just too many pages between this book's covers.

Excerpts: *Felipe Espil, the 35-year-old first secretary to the Argentine Embassy, was rich, smooth, a classic Latin lover who danced the best tango in town. His black hair was plastered to his head with brilliantine. His eyes glowed like Rudolf Valentino's. He had an oval, pale-olive face with full, sensual lips, a short neck, and a slim but muscular body. He wore a monocle. He was the biggest catch in Washington. Wallis wasted no time. Husband or no husband, she had to have him. This ugly duckling set out to get Felipe Espil into bed with all the determination of Wellington planning the Battle of Waterloo. . . . The audience rippled when the king arrived at the Royal Opera House, Covent Garden with Wallis and friends and took his place in Lady Cunard's box. He loathed opera and slipped out time and time again during the performance to chain-smoke cigarettes and fret while Wallis, who remained tone-deaf, gave the impression that she was enjoying the performance. Actually, her enjoyment was chiefly in noting that the audience was barely looking at the stage; most eyes were fixed firmly upon her.*



● **The Founding Fortunes**—by Michael Patrick Allen (Truman Talley Books/E.P. Dutton, $22.50). Unfortunately, somewhere along the line this impressive compendium has been so long making it into print that the stuff is now too dated to be of much use or relevance. The numbers have changed dynamically in the interim.

● **The Animal Trail**—by Manabu Miyazaki (Chronicle Books, $12.95). Unusual candid camera shots of wildlife on a remote Japanese mountain, "taken" by the creatures themselves via a uniquely devised robot camera over the course of four seasons. Interestingly, when doing their thing unobserved, these animals look exactly as they do when they're aware of being on camera.

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Grand Wagoneer looks great in any setting. This classic Jeep features
room for six with virtually every known convenience of luxury and power
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luxury for five adults and their cargo. Complete with a 177 horsepower
that offers you more power than any vehicle in its class.
emain extraordinary examples of precious automotive metal that gi

Wagoneer Limited

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you everything you expect in fine luxury automobiles. Like six-way power seats with lots of leather, electronic audio systems, and complete climate controls. Plus the added confidence and security of Jeep 4-wheel drive capability that's worth its weight in gold. What's more, every Jeep now comes with Chrysler's exclusive 7/70 7-year/70,000-mile Protection Plan.* For further information, call 1-800-JEEP-EAGLE.

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rotects 1989 models' engine and powertrain for 7 years or 70,000 miles and against outerbody rust-through or 7 years or 100,000 miles. *See limited warranty at dealer. Deductibles and restrictions apply.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Nix on Chemical Weapons

If you're going to make chemical weapons—if you're a company in Germany, wherever you may be—you're not going to do any business with the United States.

—Senator Robert Dole (R–Kans.), describing his bill on NBC's *Meet the Press*

Grave Choice

At a time of grave crisis during the Civil War, Abe Lincoln was awakened late one night by an opportunist who reported that the head of customs had just died.

"Mr. President, would it be all right if I took his place?"

"Well," said Lincoln, "if it's all right with the undertaker, it's all right with me."

—*Too Funny To Be President*, by Morris Udall

Discipline Dealers

At every level of government, rhetoric outstrips resources and commitment. The recently enacted Anti-Drug Abuse Act of 1988 is no exception. The Act includes a much ballyhooed death penalty provision and harsh civil sanctions for users, but it allocates precious little money for the essential tasks of treating users and punishing dealers.

The cost of illegal drugs in terms both of human misery and dollars is immense. It costs $150,000, from diagnosis to death, to care for an intravenous drug user afflicted with AIDS, and $947 a day to care for an AIDS-stricken child. It costs $80,000 merely to detoxify a crack-addicted baby, almost all of whom are born premature. The costs in related crime run to the billions.

New York State should begin construction of secure "work camp" facilities to give dealers a taste of imprisonment and to inculcate skills and self-discipline. It costs $4,000 a year to house a person in a work camp, compared to $50,000 a year to lock him away in a prison cell.

—Robert Morgenthau, District Attorney, County of New York, *New York Times*

Manly Blue Lips

If you tell your man you are cold, he will tell you that *he* is not cold, and *it* is not cold, and that therefore you are mistaken. Men think cold is manly.

—*Men: An Owner's Manual*, by Stephanie Brush

Do the Unthinkable?

Sooner or later budgetary deficits and tax burdens will force the U.S. and other countries to do what has been until now politically unthinkable—to replace Social Security systems in their present form with systems of benefits only to the needy elderly. Many retired families are well-off financially—fewer than 15% are classified as poor.

The budget deficit and the tax burden on workers would greatly ease, and poorer households could be treated better. Federal expenditures in 1988 would have been reduced by over $90 billion if the top half of older households were not eligible for benefits.

—Gary S. Becker, economics professor, University of Chicago, *Business Week*

Drawing by Levin, ©1987 The New Yorker Magazine, Inc

"Tell me, do we subscribe to this magazine, or do they just send it to us because we're the King and Queen?"

Men have no right to put the well-being of the present generation wholly out of the question. Perhaps the only moral trust with any certainty in our hands is the care of our own time.

—Edmund Burke

Wasp Joke

Q: How can you tell the bride at a Wasp wedding?

A: She's the one kissing the golden retriever.

—*New York Newsday*

$9 To Win $1

Las Vegas—Mike Tyson, the lovesick heavyweight champion of the world, bolted his training camp and was believed to have had another rendezvous with his estranged wife, actress Robin Givens.

Missing four straight days of boxing isn't that big a deal. And Tyson's weight, 229 lbs., is good.

But by breaking his training routine, Tyson is certainly not acting like the consummate professional who became boxing's "baddest man on the planet." Still, oddsmakers don't seem to think Tyson's wounded heart will make him weak for the soft-chinned Bruno. At the Hilton, the site of the bout, you have to lay $9 to win $1 on Tyson.

—Michael Marley, *New York Post*

New York Kids

Quintessential New York kids' conversation—this one between two 7-year-old boys—overheard by Rhoda Cahan at a private school on the Upper East Side, where she was picking up her son:

First boy: I found a condom on the patio.

Second boy: What's a patio?

—*New York Times*

FOR THOSE WHO ARE GOING PLACES.

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A message from John V. Roach

Global competitiveness in an age of technology begins in the classroom...

Chairman of the Board
Chief Executive Officer
Tandy Corporation

...America's Challenge

Innovation, quality and competitiveness are at the center of today's debate on America's future. We have the opportunity for a Renaissance in competitiveness in the world marketplace because of the weakness of the dollar, technology advances in production, and greater sensitivity of managers and workers alike in the need for dedication to competitiveness.

A vital element in future competitiveness is the dedication and excellence of students and teachers. The complexities of today's technology require engineers and scientists with strong foundations and high levels of intellectual curiosity. In order to help meet our country's challenge, we are going to provide additional recognition and a greater incentive to those high school students and teachers who are willing to make the sacrifices today, so we can be more competitive tomorrow in a world where technology is a major driving force.

For students and teachers demonstrating excellence in high school math, computer science and the sciences, Tandy Corporation wants to reward, honor and encourage you to become Tandy Technology Scholars. We know our future and America's competitiveness are dependent on those who attain excellence in rigorous disciplines.

We hope everyone will join us in encouraging even greater numbers of individuals to become Tandy Technology Scholars. The thousands chosen this year will be recognized in both public and private ways and hundreds will receive scholarships or cash stipends.

America needs a renewed dedication to pride in product, pride in quality and pride in country which can only be achieved through a serious commitment to educational excellence.

This school year's performance counts!

The top two percent of students completing their junior year in May of 1989 and recommended teachers of science, math or computer science for the 1988-89 school years at qualifying and participating public and private high schools will be the initial awards recipients. All qualifications, selection criteria and selections will be made by Texas Christian University and its national committee of education leaders. Parents, students and educators should alert your principal to enroll your school by completing and returning the enrollment form without delay.

TANDY TECHNOLOGY SCHOLARS

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Fact and Comment II

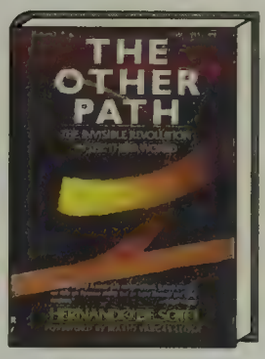
By M.S. Forbes Jr., Deputy Editor-in-Chief

SELF-MADE CRISIS

Current ideas on easing the international debt crisis are misfocused. The emphasis is on easing interest payments. Since 1982 debtor nations have been paying more to banks in servicing their debts than they have received in new loans and investments. This negative cash flow has devastated their economies; it is undermining several freshly minted democracies in Latin America.

American policymakers should concentrate instead on the *real* villain: the debtors' economic policies. Don't blame the size of the debts—proportionately, they're no larger than Canada's or Australia's or ours 80 years ago.

The wounds of these nations are largely self-inflicted. Each suffers from overtaxation, overregulation, overbureaucratization. Go down the list of debt sufferers, and the same pattern of self-destruction jumps out.



Hernando de Soto's book, *The Other Path: The Invisible Revolution in the Third World (see* FORBES, *Jan. 23)*, vividly details the claustrophobic rules and regulations of Peru.

These countries would cease to function if not for widespread "informal" economies.

The U.S. has talked about free-market reforms, but we haven't emphasized them sufficiently. Reducing interest rates or making new loans on the *promise* of change is a dead-end approach, similar to saying, "First cut spending, then cut taxes." Reagan recognized in 1981 that taxes would never be reduced under such circumstances.

Wrong Response

Take Argentina. The Alfonsín government has done little to tackle multitudinous abuses; the economy continues to deteriorate. Yet the State Department turns a blind eye because we fear that pressure would undermine Alfonsín, thereby strengthening the fascistic Perónists. Our solicitude is counterproductive. If Argentinians want another round of Mussolini-style economics, let them have it. France and Western Europe learned a hard lesson about statism from Mitterrand's disastrous policies of the early 1980s. Experience can be a powerful antidote.

The Bush Administration should indeed take a new tack on the debt crisis, recommending repeatedly, loudly and clearly the proper prescriptions:

- Major cuts in tax rates would be a powerful stimulus.
- Reducing obstacles in setting up new businesses—this would set loose forces for free enterprise that will alter political environments. Then it will be feasible to undertake meaningful privatization programs.
- Stabilize the currency, thereby ending inflation. Monetary policy should be geared to maintaining a near fixed value against the dollar.

Today, our advice sometimes borders on the economic version of World-War-I-style trench warfare. We tell debtors to cut politically popular food or fuel subsidies, to balance their budgets, to increase their trade surpluses, to devalue their money. The results are predictable: Taxes are raised, particularly on the salary-earning middle class; the economy thus stagnates. The money is debased, fueling ruinous inflation. Reducing subsidies in the midst of a stalled economy exacerbates political tensions, ripening the populace for demagogs.

Compounding these mistakes, commercial banks and agencies such as the International Monetary Fund continue to funnel money through governments or through state-owned companies, ignoring the lesson on how loans were made to the U.S. in the 19th century. Money was invested with no guarantees from Washington. If a railroad went broke, too bad for the bondholders; it did not mean default on every other loan made in the U.S. Government-guaranteed loans made overseas are almost a guarantee of trouble. Loan standards are lowered; the capital is used inefficiently.

Lower taxes and deregulation would work wonders. They triggered the German miracle in 1949 and the Japanese miracle in 1955-56. Korea and Taiwan worked their way to prosperity under more difficult conditions than exist in South America.

The notion that our southern neighbors are culturally handicapped when it comes to business is baloney. As De Soto and other observers reveal, there is entrepreneurial energy of almost volcanic proportions waiting for release.

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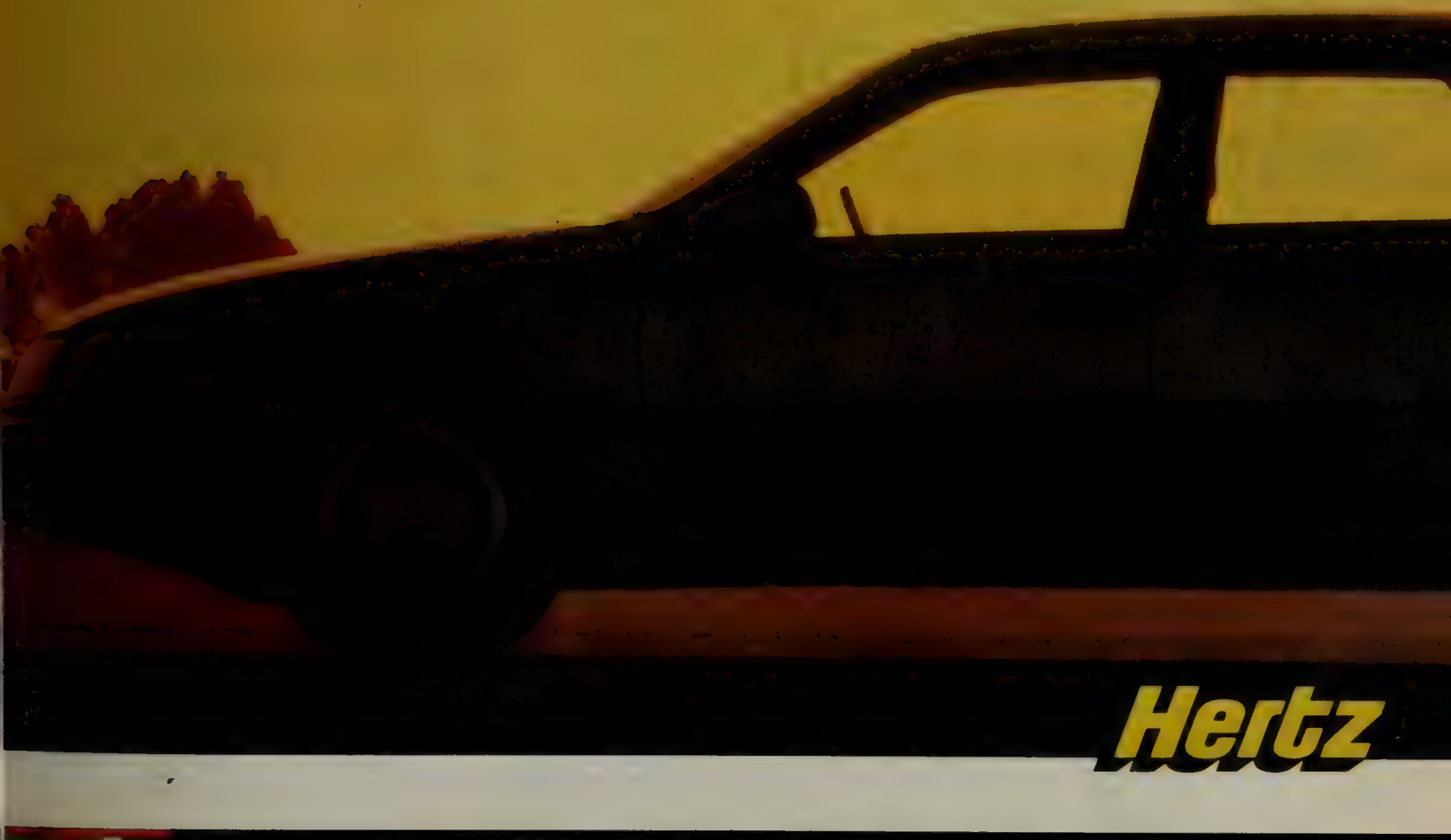

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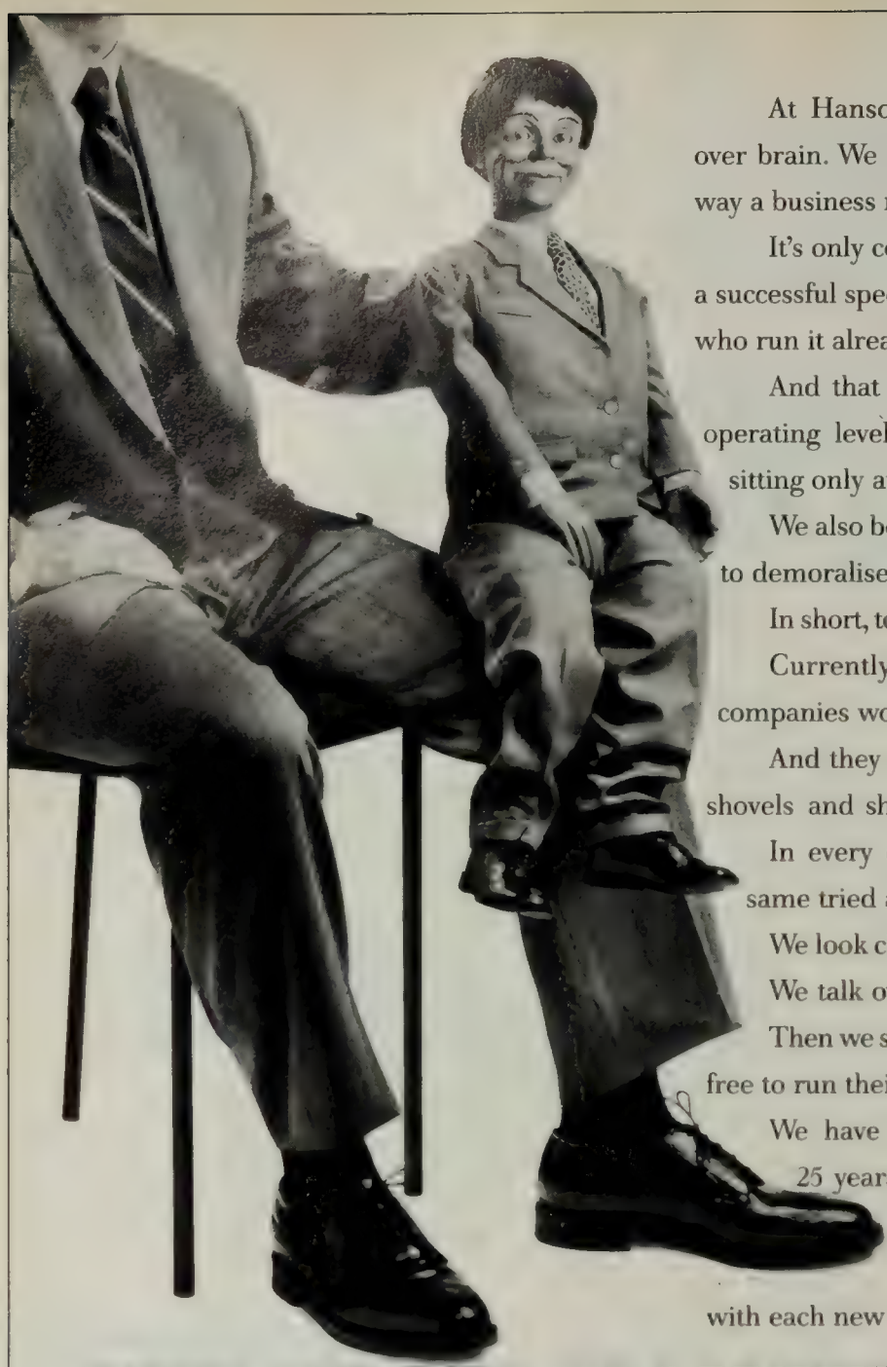


At Hanson, we never exercise corporate brawn over brain. We believe that to muscle in and dictate the way a business runs is the wrong way.

It's only common sense that the right people to run a successful specialist company are, of course, the experts who run it already.

And that knowledge and expertise learned at the operating level are invaluable and impossible to gain sitting only at 'corporate headquarters.'

We also believe that too much meddling only serves to demoralise staff and management alike.

In short, to operate a 'puppet regime' is bad business.

Currently, at Hanson, we own more than 150 companies worldwide.

And they operate in sectors as basic and diverse as shovels and shoes.

In every one of those companies we employ the same tried and trusted procedures.

We look closely at any new ideas or proposed plans.

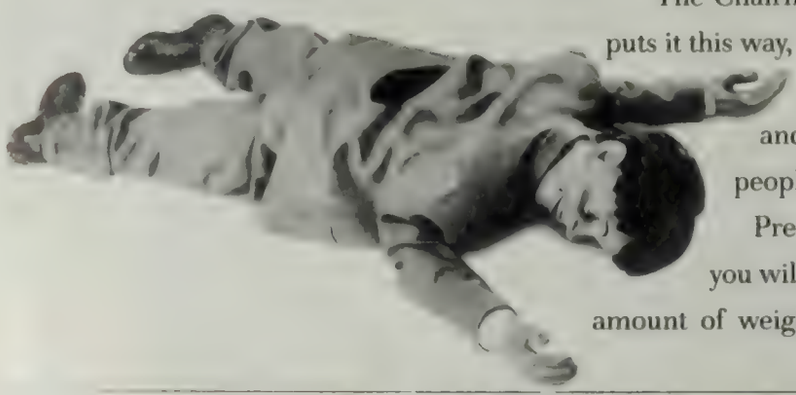
We talk over budgets until we come to agreement.

Then we step aside and leave the operating managers free to run their day to day operations.

We have been working this way for more than 25 years. Achieving record-breaking profit levels in every single one of those years.

Applying the same guiding principles with each new acquisition we make.

THE PROBLEM WITH 'HANDS ON' MANAGEMENT, IS WHAT HAPPENS WHEN YOU TAKE THE HANDS OFF.



The Chairman of our US arm, Sir Gordon White, puts it this way, 'the fellows who run the operations are the fellows who make the money... and that makes them the most important people at Hanson.'

Pre-tax earnings of $1.5 billion, we think you will agree, adds a considerable amount of weight to that statement.

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Commentary
on Events at Home and Abroad
By Caspar W. Weinberger, Publisher

A "SECRET" BUDGET PROPOSAL

Despite President Bush's oft-repeated invitation for us to learn lip-reading, most of the so-called "Washington Insiders" (a synonym frequently used by the Washington-New York media for pragmatic moderates who adopt the conventional wisdom) believe there will be a tax increase.

Before businesses start making plans based upon the big tax increase so many take for granted, we ought to ask two questions: 1. Would this really be good for the country? 2. Is it necessary?

We all know about the deficit. But tax increases, by giving more of our gross national product to additional government spending, guarantee that government spending will continually increase. That leaves less for investment in job-producing activities and generally has a depressant effect on both the present and the future.

But, say the Washington Insiders, unless we reduce the deficit, we will require the federal government to spend more and more on interest as the debt grows larger; and that will take money out of the private sector, frighten investors and the market will go down, and all manner of dire consequences will follow. And, since everyone knows the only way to cut the deficit is to raise taxes, President Bush will have to give in. Right?

Wrong. About as wrong as you can get. There is a perfectly good way to reduce the deficit from approximately $161.5 billion in fiscal 1989 to $92 billion in fiscal 1990, with an adequate increase for defense and without any new taxes beyond those presently on the books.

How could this be? A simple plan for accomplishing it, which might well have been classified "secret" for all the public notice and discussion it has received, is readily available. It is President Reagan's 1990 budget proposal, which Congress and the Washington Insiders discarded without reading. Had they read it, they would have found that the Reagan program for 1990 allows a $4.7 billion increase in defense. It also allows domestic discretionary programs to grow by $4.1 billion, and it increases entitlements and similar programs by $4.6 billion.

President Reagan's proposal doesn't tamper with Social Security, and the changes it proposes in entitlement programs affect only the providers of services and middle- and upper-income recipients. The Reagan budget allows real increases in space and science programs, which are designed to preserve our leadership in science and space technology.

The budget decreases by a little over a billion dollars some of our many discretionary subsidy programs, including agriculture, and commerce and housing credits. In education, the request is for *increased* budget authority for programs that serve the disadvantaged. The budget adds 132,000 new housing subsidies for low-income households. President Reagan requested an *increase* in budget authority for health research and services and law enforcement, and modest, but needed, pay raises for civilian and military employees.

The budget would reduce the *rate* of growth in Medicare and Medicaid by reducing the rate of increase in reimbursements to providers paid in advance; by limitations on certain physician payments; and reductions in payments for some medical and surgical procedures now considered overpriced. All of this would result in a *growth* in Medicaid of $1.7 billion rather than the growth of $3.3 billion, and of $8 billion in Medicare rather than $13 billion that would occur without the proposed changes.

A Course for Congress

There are other similar proposed changes in existing programs. The upshot is that if, instead of consigning President Reagan's last budget to oblivion, the Congress would enact it, we could reduce the deficit by $69 billion in one year and increase both domestic entitlement and defense strength without exacting any more revenue than taxpayers are now paying.

President Bush, being a man of his word, is not likely to ask for tax increases. And the Democrats won't vote for them unless he does. He has been given a perfectly good plan to make a spectacular reduction in the deficit, which will not reduce any needed, existing benefits. This would mean a kinder, gentler nation.

Taxpayers are entitled to be treated kindly and gently, too, particularly when there is no need whatever to increase the $1.1 trillion they will pay to the federal government in 1990.

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Edited by Howard Banks

DE FACTO INDUSTRIAL POLICYMAKING

We're spending more on research to suit defense, not commerce

OFFICIALLY, WASHINGTON HAS NO INDUSTRIAL POLICY. One is developing in high technology, though, aided by the Department of Defense.

There is concern on Capitol Hill—expect lengthy hearings starting in March—that the Pentagon is abusing fears of a weakening U.S. industrial base to get items that otherwise wouldn't be funded. Corporations, too, see a chance to fend off foreign competition. Examples:

- The immediate focus is on high-definition TV *(see page 72)*, where ill-advised intervention threatens to take the U.S. up a blind alley.
- Sematech, a research effort funded by 14 electronics companies, is one of over 110 consortiums given antitrust immunity to do joint research, in this case on better production techniques. That in itself is unexceptionable. But piggybacked on it is to be another consortium to make DRAM memory chips. Major users of DRAM chips see this as a means to limit how high Asian suppliers, who have driven U.S. makers out of the DRAM market, can raise prices.
- Superconductivity research is being biased, under Defense Department pressure, to find ways to cut the power required by hardware developed for the Strategic Defense Initiative and make it more practical. Contrast this with Japan's relentless search for commercial uses for superconductivity.

Where government properly takes the RISC

GOVERNMENT HAS A PROPERLY INFLUENTIAL ROLE in funding *basic* research. What economists call the social return from centrally funded research, with the results applied by many users, is naturally potentially larger than from a single company's efforts.

The so-called RISC computer chips now emerging are a model case.

RISC (reduced instruction set computers) chips streamline the way the chip operates, making them five to ten times faster than today's best microprocessors. IBM originated research into RISC. But the Defense Advanced Research Projects Agency also funded basic work at Stanford and Berkeley universities. From this work, RISC chips emerged in 1987 from entrepreneurial chipmakers Sun and Mips. Now Motorola and Intel are introducing RISC chips, adding to the U.S. lead in computers.

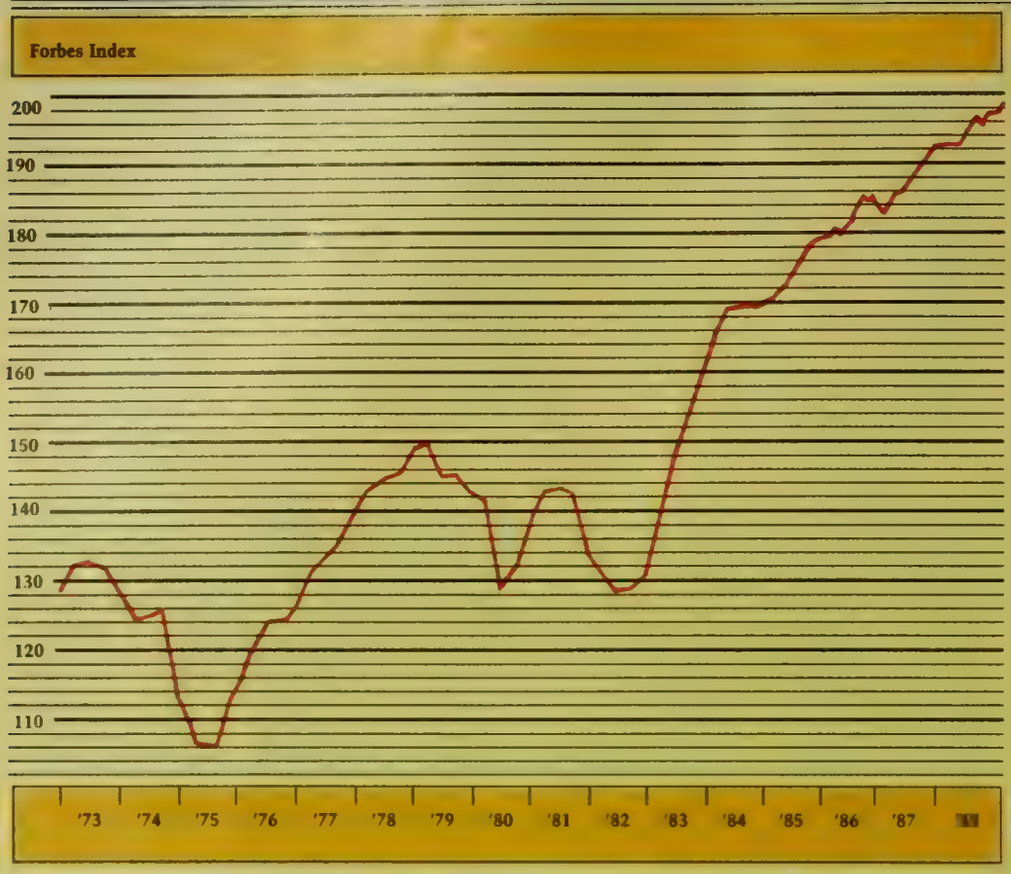
The commercial payoff these days is much more limited

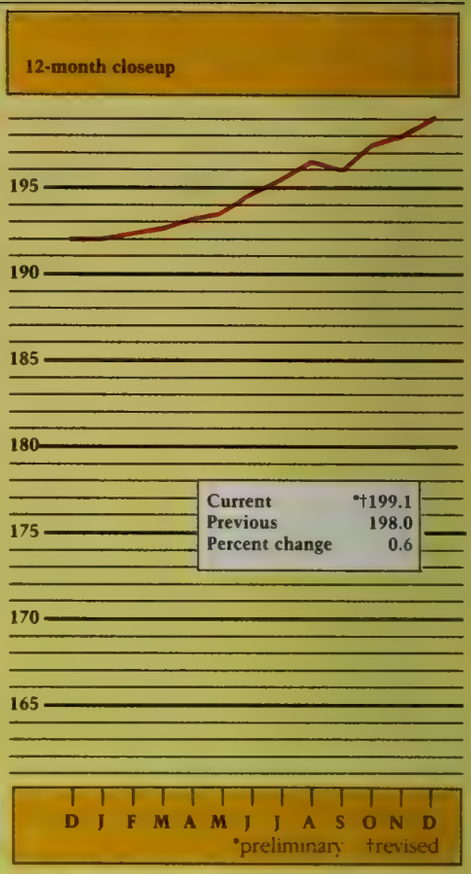
THIS GOVERNMENT ROLE IS DISTORTED WHEN, AS NOW, the Department of Defense spends heavily on specific products. Defense-funded basic research (not including NASA) has remained constant (adjusting for inflation) since 1970, says Brookings Institution's Ken Flamm, while project spending (on SDI, for example) doubled in the Reagan era.

Spinoffs are also more limited now between military and commercial applications.

The greatest concern is the stifling security blanket thrown over all the Department of Defense touches. The department blocked overseas sales of advanced chipmaking lithography equipment in the 1980s, and the leading U.S. company went broke. Today's market is dominated by Japan's Nikon and Canon.

The Forbes Index





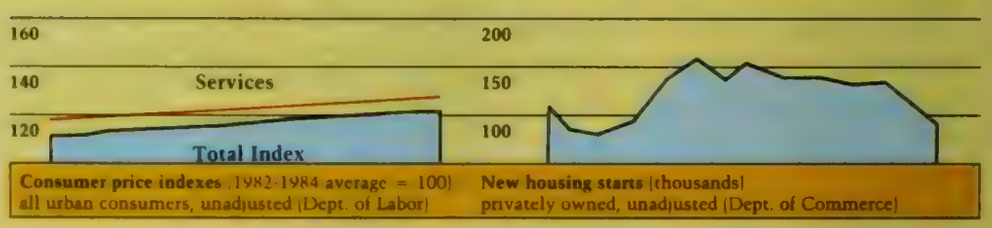
Only a little to complain about. The gross national product grew 3.8% in 1988, the best increase since 1984. Keep in mind that the gain would have been greater were it not for last year's drought. Manufacturers' new orders rose 6.4% in December, to $131 billion, while industrial production eked out a 0.3% gain. The Consumer Price Index (not seasonally adjusted) edged up 0.2% in December. The services component of this index also posted a 0.2% increase in December. In 1988 the overall price level rose 4.4%, the same as it did in all of 1987.

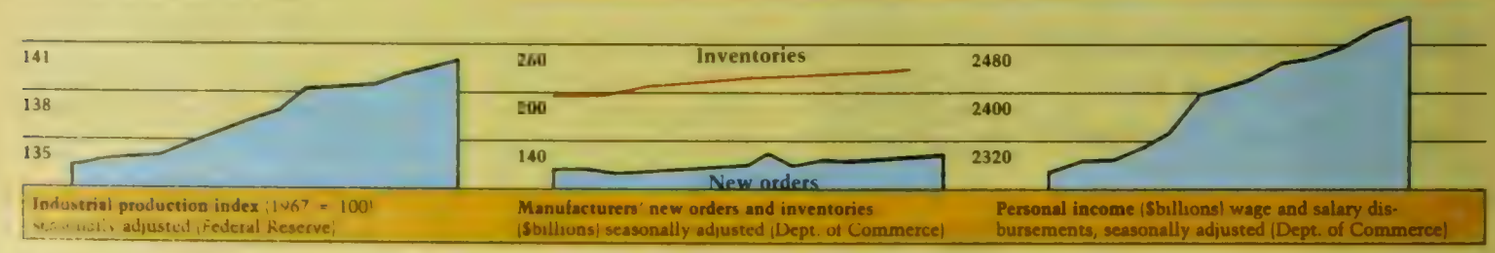
One sector not doing well is home building. Although December new housing starts of 93,700 are 9.7% above the comparable 1987 figure, the trailing 12-month new housing total is off 8.2% from a year ago.

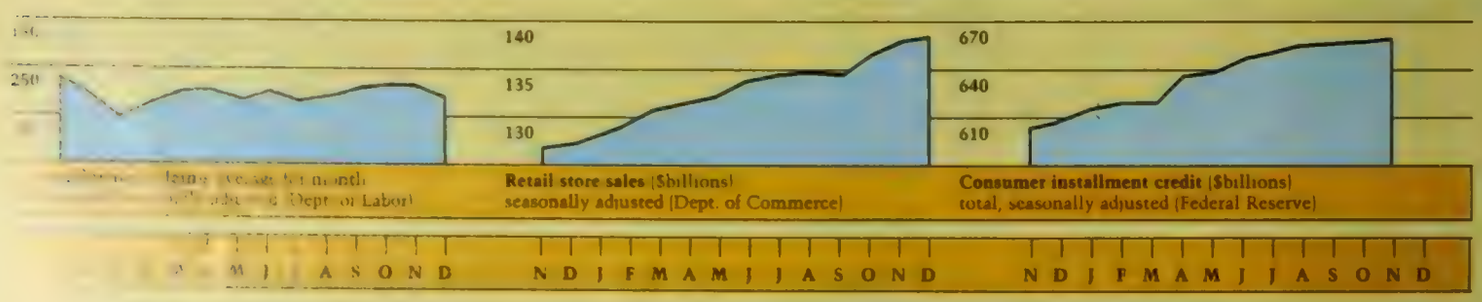
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.







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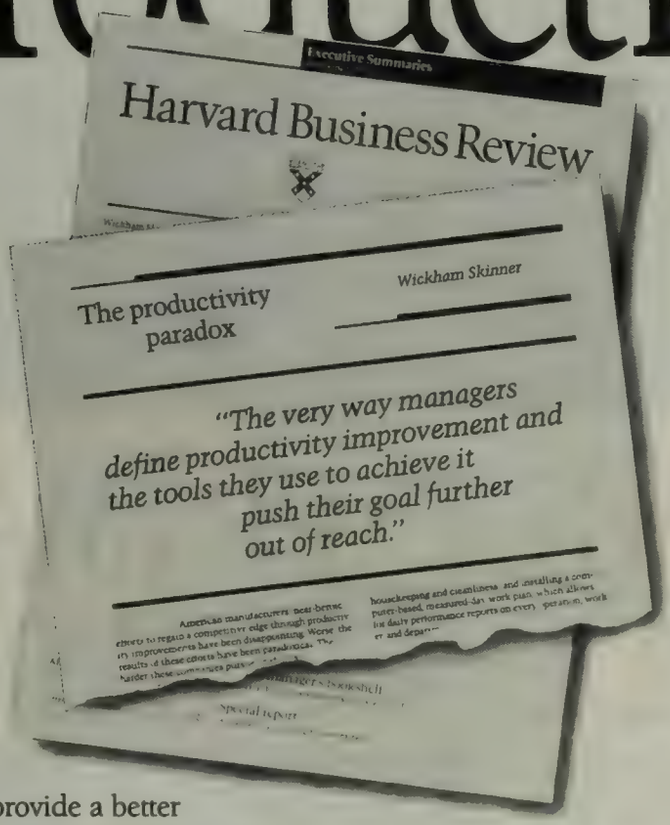

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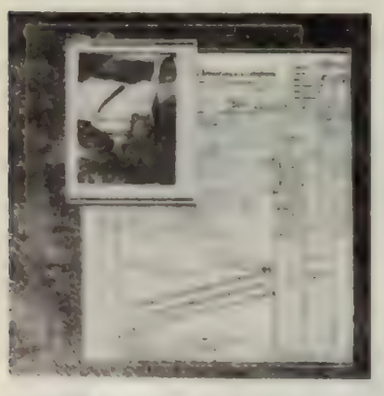

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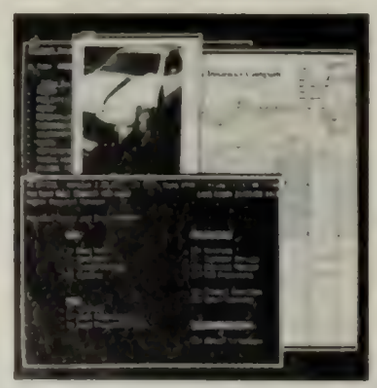

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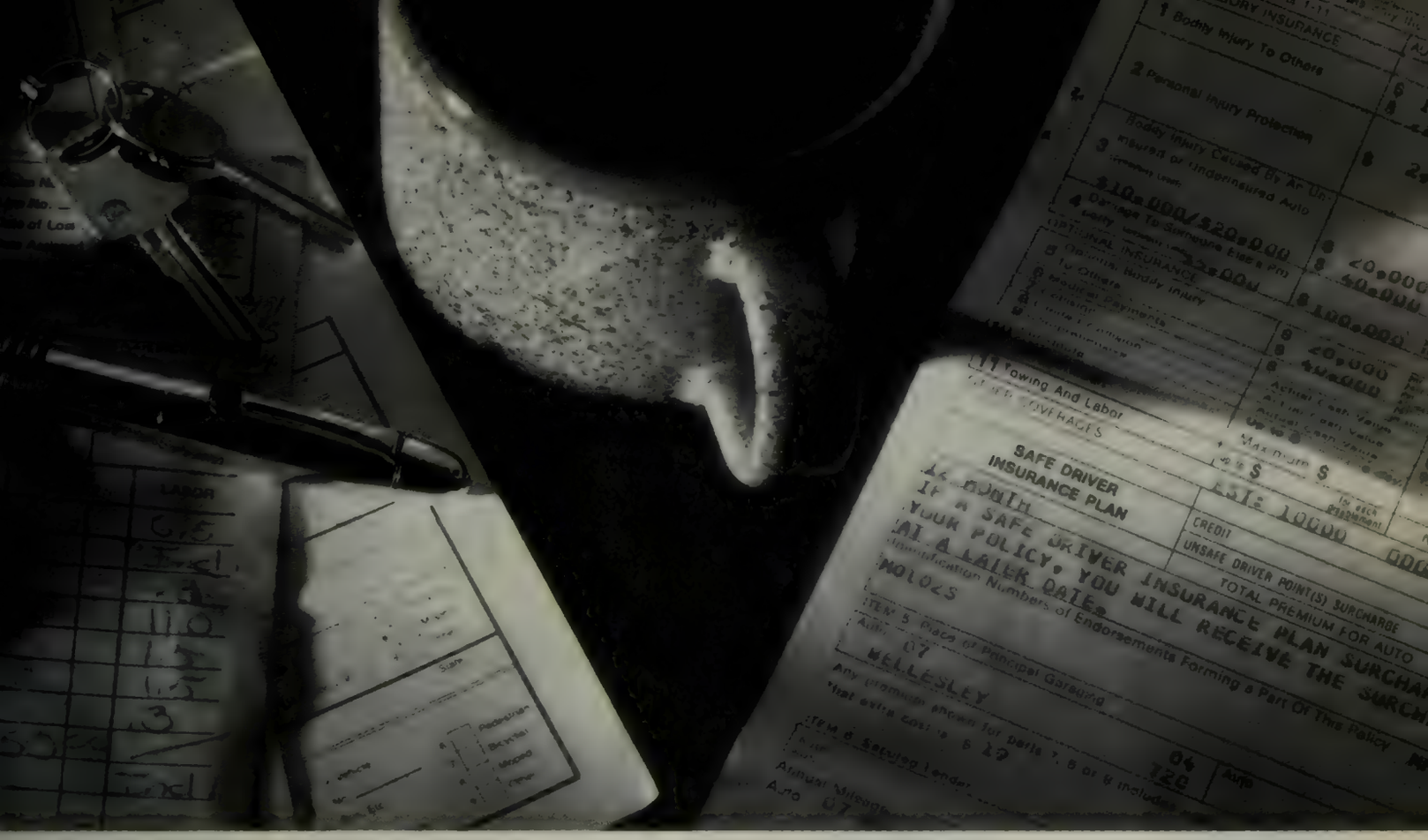

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They say that losses at sick thrifts are mounting by the billions, that a crisis is upon us. But that kind of talk is mostly media hype.

The money has already been borrowed

By William Baldwin

FOR THE FIRST TIME since the Depression, the U.S. faces a real possibility of a financial disaster brought about by the growing insolvency of the savings and loan system."

So intones a news magazine. The article conjures up images of lines outside banks, of catastrophic losses made worse every day by Congress' foot-dragging, of financial panic.

That's good reading if you enjoy being scared, but it doesn't have much to do with reality. Here are our answers to some frequently asked questions about savings and loans.

What is the magnitude of the crisis? There is no S&L crisis, not for depositors. No depositor will

lose a penny. The losses, totaling perhaps $100 billion, will be covered by the U.S. government. The real crisis occurred earlier in this decade, when bad loans and bad interest-rate speculations were being made. "Solving" the crisis won't save much money now. It will merely help account for the loss that has already occurred.

What about the often-quoted statistic that losses are mounting at the rate of $1 billion a month?
It's basically nonsense. The worst of the losses have already been discovered. Interest due on these past losses does continue to accumulate at the rate of, say, $10 billion a year. But, even when the federal government figures out how to clean up the books, the costs will continue to rise at a level of at least $9 billion a year. We'll explain why in a moment. But on this score it doesn't matter as much as you would think how soon the bad S&Ls are liquidated.

How can there be interest on past losses?
Suppose a thrift raises $200 million in deposits and lends it out to real estate developers, half of them crooks and gamblers who won't pay back a cent. That leaves $100 million in good loans. The thrift is $100 million in the hole.

Let's say the S&L earns 10% on its good loans and pays 10% to depositors. It has income of $10 million a year and outgo of $20 million. Each year, then, the S&L goes $10 million deeper into the hole, increasing the federal obligation by that amount.

But now look. Suppose the feds liquidate the bank right away. The Treasury must cough up in cash the $100 million shortfall on the balance sheet. If it borrows the $100 million at 9%, it's in for $9 million a year in interest—almost as much as it was piling up before it liquidated the mess.

So you don't really save much by having the government finance the loss?
Remember, there isn't much of a risk premium in an insured deposit—meaning thrifts, even sick ones, don't pay much more for money than the Treasury does. With George Bush volunteering that these deposits are "full faith and credit" obligations of the government, a CD and a Treasury note are almost the same thing. The highest rates in the U.S. on two-year CDs were recently running around 9.6%; on two-year Treasurys, 9.1%. Overhead expenses are somewhat higher on the CD.

Isn't the owner of an insolvent but unliquidated thrift going to be tempted to speculate?
Perhaps. George Benston, professor at Emory University, says: "He's not going to steal the money, but he'll take risks with it he'd never take if it were his own money." But in all likelihood, even the dumbest S&L operators aren't putting out new money to finance new condo projects in Houston. They're muddling along, nursing an existing sick loan portfolio.

What about keeping the lights burning at all those unneeded branches?
We're not talking big money. Donald Inscoe, bank analyst at Veribanc in Wakefield, Mass., estimates that 1,000 to 1,500 of 19,600 S&L branches will be shuttered over the next five years. Rough estimate of the savings in overhead: $500 million a year.

How can the government afford to finance S&L losses when it has a huge deficit of its own?
Afford? If you look at economic reality rather than archaic government accounting, the Treasury is already financing the losses, even though the bill is piling up off the government's books. But booked or not the losses are there and so is the federal guarantee. The government should simply update its accounts. Instead of $2.1 trillion of publicly held federal debt, it should report $2.2 trillion.

You talk as though borrowing is the only answer. Wouldn't some form of user fees avoid increasing the federal debt?
President Bush has pledged no new taxes. User fees are merely a euphemism for taxes.

So what's the bottom line?
No matter how the federal government deals with the problem, the cost remains virtually the same—$100 billion or so; or, looked at differently, $9 billion a year in interest. There was a savings and loan crisis. It is over. The problem now is simply a bookkeeping one—and a political one about who becomes the white knight and who the villain. ■

Throughout Western Europe, state monopolies on television broadcasting are crumbling. The winner: Hollywood.

Le Défi Disney

By John Marcom Jr.

TWENTY-ODD YEARS AGO Jean-Jacques Servan-Schreiber's *Le Défi Américain (The American Challenge)* warned Europeans of the spreading influence of U.S. multinational corporations. If Servan-Schreiber were to reissue the book today, he might call it *Le Défi Disney*.

Country by European country, government control of television broadcasting is being loosened and smart entrepreneurs are being freed to feed the public what the public wants rather than what the governments think they should view.

In Italy, Silvio Berlusconi exploited a legal loophole to create private national networks in competition with the government (FORBES, *Jan. 25, 1988*). In France, the government sold off the main state channel to some highly commercial types. And Canal Plus, a French subscription television channel that uses scrambled broadcast signals instead of cable distribution, has become the most successful such service outside the U.S. Similar private pay channels à la Home Box Office are building audiences in Switzerland, Scandinavia and the Low Countries.

Spain is now selecting three private competitors to its state network. Even in ultracautious West Germany,

the steady, government-financed spread of cable TV is opening the door for some powerful new German-language channels.

In Britain, the Thatcher government plans to add at least one new broadcast channel and increase competition among existing channels—just as two competing direct broadcast satellite systems begin broadcasting this year.

Clearly, the 320 million viewers have reason to be happy. And so does Hollywood, which seems to have a knack for making common-denominator entertainment that cuts across national boundaries.

"The guys who are really making out are clearly the people who have program rights," says Robert Ross, who heads the effort to sell Ted Turner's Cable News Network in Europe. Market researchers at Frost & Sullivan forecast that Western Europe will nearly quadruple spending on U.S. programming from $675 million in 1987 to $2.6 billion in 1992, when Europe could be a more important revenue source for Hollywood than ABC, CBS and NBC combined.

A few years back, a half-hour of a hit American situation comedy like *Cheers* or *Three's Company* might have earned $25,000, Europe-wide, from various foreign networks. Now, an episode can pull in $75,000 or even $100,000, says Etienne de Villiers, head of international TV distribution for Disney. Reaping the rewards of hits like *The Golden Girls*, Disney's international TV revenue has multiplied sevenfold since 1985, de Villiers says.

It isn't just a matter of money. Disney, for instance, is gaining better scheduling and a greater say in packaging and promotion. With a new Euro-Disneyland under construction outside Paris, the company wants to use TV shows to drum up theme-park business as it long has in the U.S. The goal is three hours weekly of Disney-brand programming, a target it has met in Italy and France and is nearing in the U.K. In Portugal, 55% of the viewing population tunes in to a Sunday night Disney Club program.

The opportunities seem limitless. Turner Broadcasting expects to lose $5 million this year selling CNN in Europe, but remains convinced that long term the service will become a sort of *International Herald Tribune* of the airwaves. American professional sports leagues are rapidly gaining exposure and revenue in Europe. British, French and Italian television networks all relayed last month's Super Bowl game.

Even game and talk shows, the low-budget staple of many American stations, are going to be increasingly popular in Europe. Already TF1, France's leading network, has learned the drawing power of a locally produced *Wheel of Fortune*, generating royalties for King World Productions. The show offers a strong lead-in to the main nightly news.

The most dramatic changes this year are in Britain. For 30 years, the state-run British Broadcasting Corp. and a commercial monopoly—a group of 16 companies that together form what's known as Independent TV—tacitly decided which Hollywood products would air in the U.K. and kept prices for broadcast rights to U.S. films or TV shows low.

But now, with two new British satellite networks girding for an exorbitantly expensive battle, British couch potatoes could have nine new channels to watch by Christmas. That would bring the total of British viewer channel options to at least 13. The threat alone has fueled bidding for Hollywood product.

Illustration by Marc Yankus. TV images courtesy of Movie Star News

In this battle, Rupert Murdoch's Sky Television has a six-month head start on its rival, British Satellite Broadcasting Ltd. But BSB is running hard to catch up; its backers include Australia's Alan Bond, *Financial Times* publisher Pearson Plc., publisher Reed International Plc. and commercial broadcaster Granada Group Plc. To get the programs it needs to compete against Murdoch, BSB went on a shopping spree late last year to lock up output from major studios not already linked with Murdoch.

The deals stretch out over as long as six years and include an upfront portion. For instance, BSB says it is paying Columbia Pictures Entertainment a total of $160 million spread over several years for rights to 175 films. In all, BSB has lined up some 1,800 movies, involving upfront payments of about $175 million and an ultimate outlay totaling $1.2 billion.

BSB's backers chipped in another $230 million in additional financing last month, bringing their total wager so far on the venture to $625 million. (Besides the initial payments for programming, BSB has had to buy, and launch, its own satellite, and says it will lavish more than $50 million on initial promotion.)

"We had to pay a hell of a lot more up front than we ever dreamed of," concedes David Cawthorne, finance director of BSB.

It begins to look as if the owners of the entertainment software—the movies and filmed programs—will be the big winners as the broadcasters throw money into the competitive fight. "They [BSB] are paying loony amounts," says Mike Luckwell, a London media investor who has examined, and passed by, several chances to get into satellite TV. "If you take a fairly optimistic view, then the business *might* break even in eight years."

Some Europeans decry the spread of *Wheel of Fortune* and the like, and are advocating strict quotas on imported programming. Hollywood a major cause of trade friction? It could happen. *Le Défi Disney* could soon become a challenge for the Bush Administration. At a time when the U.S. balance of payments needs all the help that it can get, the U.S. cannot afford to lose this huge potential source of revenue. ■

Wall Street smirked when Stephen Swid paid CBS $125 million for its music publishing division. Who's smirking now?

Last laugh

By Lisa Gubernick

When I was 23," says Stephen Swid, "I sat down and wondered what I should do. I didn't just want to be rich; I wanted to be wealthy. Rich is a person who has a lot of money. Wealthy is a person who has money—and time." The ambitious youngster was then a lowly credit analyst for an aluminum siding company.

Today Steve Swid, who started on Wall Street 25 years ago as a Dreyfus Fund analyst, can count himself wealthy. In January he and two partners made over $200 million selling the onetime publishing unit of CBS records to Thorn/EMI, a London-based conglomerate. That figure was nearly three times what they paid CBS for the assets just over two years ago.

More than just making Swid wealthier, the deal helps redeem a reputation sullied by some nasty publicity a few years back. Swid was dismissed as the nicer half of Cogan & Swid, the investment duo that built a $2 billion furniture and carpet conglomerate and made an embarrassingly unsuccessful pass at Sotheby's. Marshall Cogan and Stephen Swid lived in side-by-side Manhattan apartments, shared a huge office with side-by-side desks. The idyllic partnership, however, ended in an acrimonious breakup over personal and professional matters, and the two self-made men went their separate ways.

Cogan got the conglomerate, Knoll International (née General Felt Industries); Swid got $30 million in cash. So much for nice guys, figured Wall Street. Wall Street figured wrong.

Since the breakup, Swid has quietly leveraged his small fortune into well over $100 million. Over a bagel-and-cream-cheese breakfast in his Gwathmey Siegel-designed Manhattan penthouse office, he told Forbes the story:

A college buddy of Swid's, Martin Bandier, was running a smallish music publishing company, the Entertainment Music Co., with one Charles Koppelman, himself one of the music industry's savvier executives. Bandier learned CBS Songs was on the block, but he couldn't get anyone at CBS to let him see the books.

Bandier went to Swid, who knew Laurence Tisch—then a CBS director soon to become chief executive. Swid got the numbers. He knew nothing about music—but he did know how to read a balance sheet. "I laid out the amount of cash they were putting into advances [to artists] next to the cash that was coming out of the operation, and the cash kept on growing," explains Swid.

"I may not have understood music publishing, but I did know that when you see cash flow increasing at a rate of 8% to 10%, you realize that the business has potential."

Swid, Bandier and Koppelman formed SBK Entertainment World and bid $125 million for CBS' 250,000-song catalog, which includes tunes ranging from "Singing in the Rain" to "You've Lost that Lovin' Feeling."

At the time, it was the highest price ever paid for a music publisher. Swid anted up most of the upfront money ($12 million in cash, the rest a loan from Citibank) and Koppelman and Bandier brought the music business expertise. Swid got 50% of the compa-

Laurent Niddam

SBK partners (left to right) *Bandier, Koppelman, Swid*
Making music publishing more than an annuity.

Eating Larry's lunch

Swid, Bandier and Koppelman are but the most recent beneficiaries of Laurence Tisch's beneficence. In 1985 Jerrold Perenchio bought the Loews theater chain for $160 million. Perenchio sold the real estate for a reported $40 million and the theaters to Tri-Star Pictures in December 1986 for $300 million. Profit: $180 million.

CBS Magazines was sold to its president, Peter Diamandis, in October 1987 for $650 million. By April 1988 Diamandis had sold seven magazines to two buyers for around $230 million and the rest to Paris-based Hachette SA for $712 million. Total take: just under $1 billion, a 45% profit.

Tisch sold CBS Records to Sony in January 1988 for $2 billion, 15 times its 1987 posttax income of $131.7 million. It seemed a stiff price at the time, but less so in retrospect. Compact discs and a generally robust music industry have brightened that company's prospects. Music mogul David Geffen thinks CBS Records would now fetch at least 50% over Tisch's price, or more than $3 billion.

"Larry Tisch thought CBS ought to stick to its basic business, so strategywise, the sales made sense," says I. Martin Pompadur, who heads ML Media Partners, a media investment fund. "Unfortunately, he didn't maximize the sales prices."

The reason? According to Pompadur, it's partly the fault of the CBS staff who advised Tisch. The usually astute manager was vulnerable to bad advice, contends Pompadur, "because he had never been in the trenches and didn't really understand how the businesses are run."—L.G.

ny, Koppelman and Bandier 30% and 20%, respectively.

Within six months, they sold off $20 million in nonpublishing assets and pared over $3 million in interest expenses, and some $2 million in operating expenses.

Just as important as cutting costs was exploiting the assets they had acquired. At CBS, the publishing division had become a stepchild. "If you didn't do well in records, they moved you over to publishing," says Swid. The catalog was regarded as an annuity, a passive source of income. Within the year Swid and company turned over most of the staff and started aggressively promoting their titles. They increased their licensing staff from one to ten and published a three-volume catalog of their songs, sending it to every top ad and entertainment executive in the business.

Results? AT&T paid some $250,000 to use "Over the Rainbow" in its advertisements; Nike was charged the same amount to use the Beatles' "Revolution" in its sneakers commercials (Michael Jackson owns the Beatles' songs; SBK receives a fee for managing the catalog). In two years SBK increased net publishers' share (revenues minus writer royalties, roughly equivalent to operating earnings) by 70%, to $37 million.

No wonder Thorn/EMI was so interested in the property.

What next for Swid? He is amicably parting company with his two partners, though they will continue to share offices. Bandier and Koppelman are sticking to the music business, starting their own record label for Thorn/EMI.

Swid and his new operation, SCS Communications, will concentrate [illegible] 50% holding in Cinecom Entertainment, a maker of high-brow movies such as *A Room With a View*. Swid bought the Cinecom stake for $8 million last spring and is plowing another $2 million cash into the company. Plans include expanding the production slate from two films this year to four in 1990.

Sometimes nice guys can finish first. ■

It's not corporate restructuring that has the public upset but the spectacle of all that easy money being made. So look for Congress to make a lot of noise and do almost nothing about leveraged takeovers.

Tax adagio

By Richard Phalon

A GRAND TOTAL OF eight—count them, eight—separate congressional committees and subcommittees are looking into leveraged buyouts. You will be reading about these hearings and deliberations for months.

Forget it. Nothing much is going to happen.

"The polls show that people are mad at Wall Street because there is so much easy money involved, but we're seeing very little direct constituent interest," says one Senate Finance Committee source in what is a typical assessment of the choreography on Capitol Hill.

Put it this way: What the folks are really mad about is seeing a few other folks make all that easy money. Otherwise, most of the voters don't know leveraged buyouts from Einstein's theory of relativity.

The insinuation of so cool an issue as debt versus equity at the center of the debate is a tip-off that Congress is just going through the motions.

True, AFL-CIO President Lane Kirkland put a strong case to the Senate Finance Committee that "the long list of mergers, takeovers and leveraged buyouts over the past decade has directly resulted in some 90,000 of our members losing their jobs." But so carefully framed were the parameters of discourse that even Kirkland had to

address himself to the subject of "corporate restructuring and the replacement of equity with massive amounts of debt." Try explaining that in a 30-second TV news report.

That is not the stuff of which congressional stampedes to major tax changes are made. In fact, just about the only stampede on the Hill was the rush of committee chairmen to get in front of what the headlines told them was potentially a red-hot issue.

"It was the multibillion-dollar size of the RJR Nabisco LBO and the high visibility of the other food industry takeovers coming on top of the Drexel Burnham case that got everybody moving," says one committee tactician. "We had to preempt the issue."

To preempt isn't necessarily to act.

As FORBES has pointed out, the real issue is clear: Because they substitute debt for equity, most leveraged buyouts are subsidized by the federal Treasury. "The whole takeover movement is tax-driven," says a Chicago investment banker. "Congress could slow the movement by putting common stock on the same tax basis as debt by exempting dividends from double taxation." But that would cost revenue and would force a major overhaul of the tax laws, something Congress is in no mood for. A 10% reduction in dividend taxes, says a Senate Finance Committee technician, might cost as much as $4 billion to $5 billion in revenue. A 10% levy on interest deductions, on the other hand, would probably produce offsetting revenues that amount to "only hundreds of millions."

In the process of exploring how leveraged restructurings are shaped by the inherently lower cost of debt, the lawmakers have been exposed to a worrisome trend. Nonfinancial corporate restructuring of one kind or another in the last five years has wiped out more than $300 billion worth of equity and created more than $600 billion in net new debt.

What is the potential impact of that leverage on corporate America and the institutions—pension funds and Employee Stock Ownership Plans, among others—that hold all that debt? Are LBOs really good for you?

Only history can provide the answers, but most politicians prefer to let the market decide; economic engineering hasn't much of a constituency these days.

The likely result: no substantive changes in taxes; some regulatory tinkering that will make takeover borrowing somewhat more difficult. All accompanied by a great deal of political posturing and media static. ■

A growth company one day, busted the next, Shape Inc. is one more example of how careless our banks have gotten in some of their lending practices.

Charming their bankers

By Richard Behar

THIS WAS THE WAY U.S. industry was supposed to be run. Shape Inc. of Biddeford, Me. held nearly 30% of the U.S. market for prerecorded music cassettes against cutthroat competition from the Far East. Shape boasted $200 million in revenues and 15 years of 40% average annual sales gains, and gave jobs to 3,000 people.

Shape's founders were Anthony and Paul Gelardi. The two brothers began by making 8-track cartridges in a drive-through car wash in Biddeford in the early 1970s. The brothers, 47 and 41, graduates of Rhode Island colleges, were talented engineers and designers. They served as chairman and vice president, respectively.

Last November, almost without warning, Shape filed for Chapter 11, the largest in Maine's history. The filing listed $155 million in liabilities owed to 7,800 creditors.

What happened? Shape turned out to resemble a Ponzi scheme. According to top company officials who spoke to FORBES on a promise of anonymity, by fall 1987 the company was consuming cash at a rate of $800,000 a month and had to keep floating ever-bigger loans to pay the debt then due. In short, Shape was apparently paying its debts with borrowed money.

Though the company began life with good prospects, by the mid-

Kip Brundage/Wheeler Pictures

Shape's Patrick Kareiva
"This is a more complex set of structures than I've ever seen."

Brothers Paul and Anthony Gelardi, Shape's founders
People wanted to believe.

Kip Brundage/Wheeler Pictures

1980s the privately held company's borrowing efforts had begun to dominate the business. That borrowing was maintained through a maze of 25 subsidiaries, divisions and joint ventures. Says Patrick Kareiva, Shape's newly hired chief executive, who was brought in by the Gelardis to sort out the mess, "This is a more complex set of structures than I've ever seen."

Among the lenders involved were some of the biggest and presumably savviest around, including Bank of New England, Citicorp and Prudential Insurance Co. Why did these big-timers provide such easy credit? It's an old story. People want to believe in wonderful, fast-growing companies, and Shape, with a dominant position in its industry, was certainly that.

The cassette market had shown impressive growth throughout the 1970s, and by 1984 Shape was claiming pretax operating income of $6 million on sales of $48 million. In 1985 Bank of New England became a major lender, along with Citicorp and the Prudential, and Shape's long-term debt began to balloon.

By 1986 the company's revenues had doubled and pretax profits had climbed to $9.5 million. But debt was now $41 million and growing, versus a mere $8 million three years earlier.

In 1986 Merrill Lynch proposed making an initial public stock offering for Shape. The brothers turned Merrill down. Why? Cofounder Paul Gelardi tells FORBES that "the timing was off," but perhaps the brothers just didn't want Merrill auditors pawing through their books.

The banks continued to lend anyway. Take the case of a compact disc manufacturing subsidiary known as Shape Optimedia Inc., based in Sanford, Me. In 1987 Optimedia decided to build a $387,000 assembly machine to aluminize the discs. Design and construction plans were shown to Coastal Bank of Portland, a Shape lender. The bank cut a check because Coastal received a lien on the machine and was confident that if Shape defaulted, the bank would be able to foreclose on the loan, sell the assembler and recover its money.

Such deals were done not dozens but literally thousands of times. Unfortunately, the collateral on the loans was often not enough to cover the loan itself. Why not? One reason was so-called soft-cost accounting. In it, the development and design expenses on equipment are included in the loan price, even though the market value of the machinery itself would necessarily be less.

The second reason has to do with the specialized nature of the equipment, much of which was custom-built for particular Shape applications. For most other companies, such machinery would have little if any value at all. It was rather as if a bank would give you a loan to design and build a $1 million house inhabitable only by 12-foot-tall giants. A lovely house to be sure, but one with a limited resale value at best.

Now Shape's creditors are scrambling to recover whatever collateral they can, but it's not easy. Company officials tell FORBES that nearly 13,000 different pieces of equipment are involved, each with its own individual lien. But in hundreds of cases the machines were stripped of parts for use on other machines, and shipped out of the state or even the U.S. without the lenders' knowledge. "It appears Shape regularly dismantled equipment to reconfigure elsewhere," concludes Michael Hullinger of the Bank of New England, Shape's largest creditor, with nearly $50 million owed to its leasing unit.

Shape's core audio- and videocassette divisions continue to operate, and with the sale of subsidiaries such as floppy disk makers and tool-and-die companies, the cassette divisions could have a viable future. Meanwhile, a federal bankruptcy trustee was appointed last month to oversee the affairs of what once looked to be one of New England's most promising new businesses. Now virtually powerless, the Gelardis claim they face personal bankruptcy as guarantors of several of Shape's loans. ■

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Want to buy $4 in cash plus valuable tax-loss carryforwards for just $2.87? Consider Publicker Industries, a Drexel Burnham-backed corporate shell.

Liquid assets

By Matthew Schifrin

HERE'S A Big Board-traded corporate shell with $51 million in cash and $93 million in valuable tax-loss carryforwards. Suppose you could buy the whole thing for $35 million plus assumption of $30 million in debt? You'd take the deal, wouldn't you? Of course you would, and that's why Michael Milken, the Bass brothers, Richard Rainwater, First Executive and Drexel Burnham Lambert among them bought 22% of Greenwich, Conn.-based Publicker Industries.

Publicker Industries (founded in 1913 by Harry Publicker) was once a blue-chip company selling brand names like Old Hickory bourbon and Dixie Belle gin. Publicker's business flourished during World War II, when it supplied 30% of the country's industrial alcohol. The company peaked just after the war with $355 million in 1946 sales and a stock price of 67.

After that everything went wrong. When Castro took over Cuba, Publicker lost its supply of molasses, a main ingredient in industrial alcohol. Its liquor brands declined and a feud erupted among the founding family members. A recent series of lawsuits for hazardous-waste dumping has already cost the company $1.6 million. Publicker has lost money in all but 10 of the past 34 years.

In 1985 a couple of bankruptcy investors took over the company: the current chairman, Harry Freund, 48, and vice chairman, Jay Goldsmith, 45. They and a group of fellow investors acquired 14% of the stock for $4 million. Freund and Goldsmith sold Publicker's huge liquor inventory and shut down the alcohol plants. They reduced the once-proud company to a corporate shell, with some cash and the tax-loss carryforwards.

Enter Drexel Burnham. To utilize the tax-loss carryforwards, Publicker needed to acquire some profitable businesses. Drexel agreed to raise $30 million as a takeover kitty. Drexel sold bonds carrying stock purchase warrants and took additional warrants for its services. Milken, Rainwater and the Bass brothers purchased the bonds and warrants through a large private partnership called Investment Limited Partnership.

With the proceeds of the junk bond issue, Publicker in 1987 bought a small mattress ticking company from a British merchant bank named Charterhouse. Charterhouse's principals also got board seats and a lucrative consulting agreement. A year later Publicker agreed to sell the mattress operation—again through Drexel—for a handsome profit: $41 million against a cost of $25 million. Hence Publicker's coming cash hoard.

The deal also gives an insight into the interlocking partnerships involving Drexel, its executives and Milken. The buyer of the mattress ticking firm is yet another partnership with Drexel ties, a company being formed by Peter Joseph, Angus Littlejohn and Drexel alum Paul Levy.

Drexel-financed shells have often returned handsome profits, not only to Drexel people but to outside shareholders. A sensational example was Triangle Industries, which started as a small NYSE-listed wire, cable and vending machine company and ended as the world's largest canmaker before being sold to French interests for over $1 billion. Or Ronald Perelman's MacAndrews & Forbes, which went from a $49 million (revenues) public jewelry store chain named Cohen-Hatfield to a $270 million conglomerate before being taken private by Perelman. MacAndrews & Forbes now reports sales of $2.2 billion.

Will Publicker prove a similar bonanza? Drexel's current problems and its messy separation from Michael Milken may upset this particular applecart. Even so, Publicker shareholders are not at much risk when the stock sells for $2.87, against $4 per share in cash and tax-loss carryforwards worth almost as much more. ■

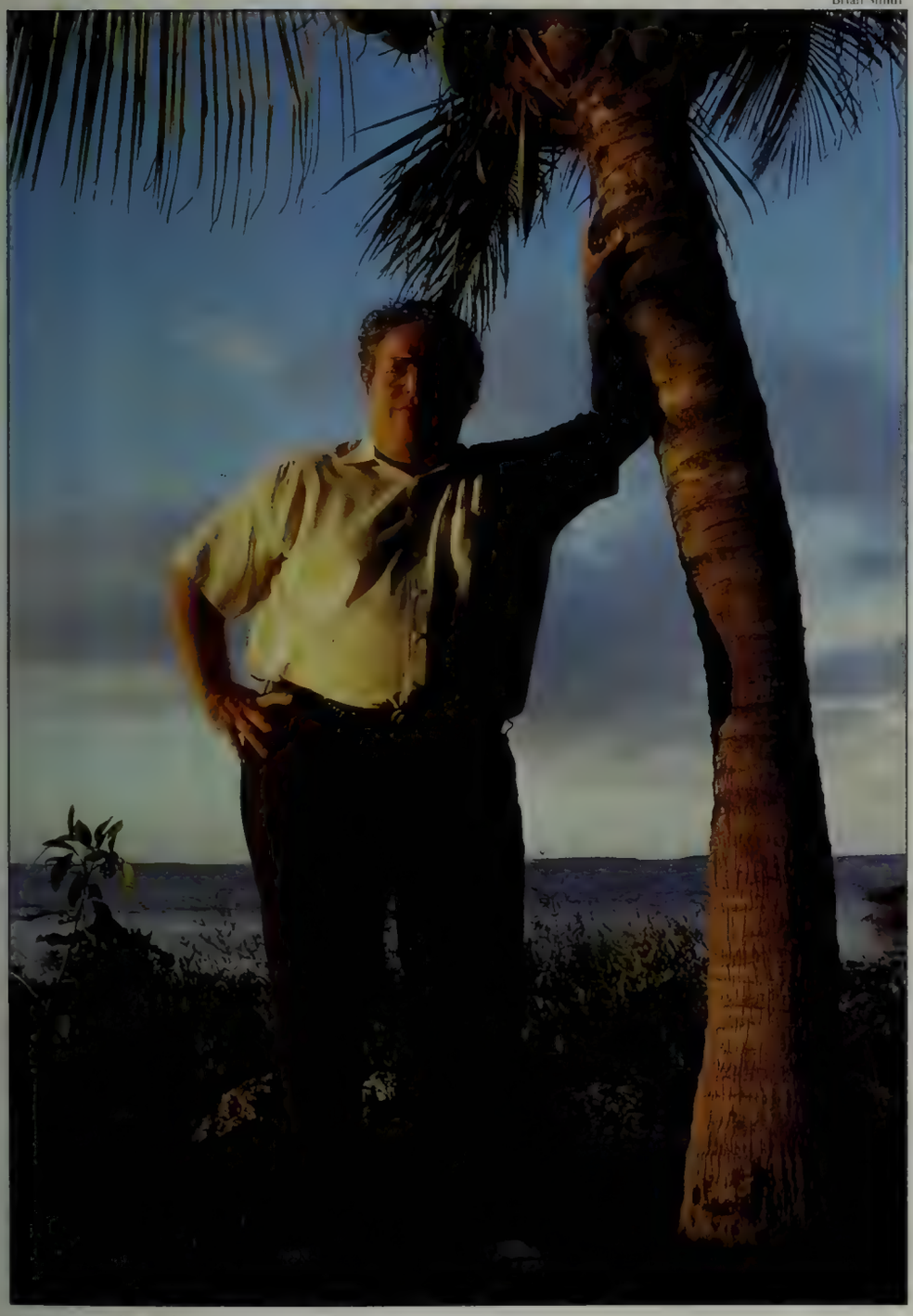
Angel Franco/NYT Pictures

Investors Jay Goldsmith and Harry Freund
Are they the brain of the next Triangle Industries?

Can a stock picker find satisfaction running a business? Onetime go-go money man Bill Berkley has found business far more rewarding than stock trading.

Boy wonder grows up

Brian Smith



Company builder William Berkley
From go-go to grow, grow.

By Edward F. Cone

WILLIAM BERKLEY finally got around to putting his company name on his Greenwich, Conn. office building door last year. He did so only after visitors complained they hadn't been able to find the place. But Bill Berkley didn't always shun the limelight.

In the go-go days of the Sixties he was a boy wonder of the investing world. At the age of 23, the Harvard Business School graduate wowed the press as a whiz investor with his Berkley Dean & Co., where he ran $15 million in investments and managed a $10 million mutual fund. Berkley specialized in picking stocks with relative earnings growth—companies with earnings growing faster than the economy. He was widely publicized as an investment genius—although FORBES commented that "geniuses" are common in bull markets.

Indeed, as the market hit the doldrums in the early Seventies, Berkley stopped trading stocks professionally. Not only was the fast money gone, he was dissatisfied with stock picking from a personal point of view. "I was in touch with the fundamentals," he says, "not the psychology or gossip driving the short-term markets."

But, unlike a lot of the hot stock performers from those days, Berkley was no spent rocket. He decided that his fondness for fundamentals as against fads would be better rewarded investing in businesses rather than in stocks. Instead of looking for trends in stock prices, he began looking for business trends he could capitalize upon. Twenty years later, at 43, he has a net worth currently estimated by FORBES to be at least $300 million.

Berkley has grown rich by spotting and exploiting opportunities in some seemingly dull businesses. In the 1970s he saw that changing financial controls for property-casualty insurance companies had more than doubled the number of investment dollars available per each dollar in capital. This additional leverage meant that insurers could make safe investments in government bonds and still pick up tidy profits on the spread between their payout and interest income. The markets had yet to realize the new economics of the industry, allowing Berkley to buy in cheap. Berkley began acquiring property-casualty companies, and today has built W.R. Berkley Corp. into a nearly $500 million (revenues) public insurance company, of which he is chairman and the largest stockholder.

During the Reagan years, Berkley

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Unlike a lot of the hot stock performers from those days, Berkley was no spent rocket. He decided that his fondness for fundamentals as against fads would be better rewarded investing in businesses rather than in stocks. Instead of looking for trends in stock prices, he began looking for business trends he could capitalize upon. Twenty years later, at 43, he has a net worth currently estimated by* FORBES *to be at least $300 million.

assembled Finevest Services, a conglomerate with over $1.5 billion in sales, with interests primarily in food processing and distribution. He started out by purchasing Dellwood Foods, a dairy company, as an investment play, and ended up intrigued by the business. What Berkley liked was the noncyclicality of such a basic field, and also the fragmented market that allowed him to gain economic benefit by consolidating small companies. That led him to buy up a series of dairy companies largely in the Southeast, including the well-known Pet brand name.

What's Berkley up to these days? Largely, he's involved in the care and feeding of a fledgling computer/communications firm specializing in market research. The company, Strategic Information Inc., employs fewer than 100 people, lost $700,000 on 1988 revenues of a mere $8.3 million, and trades over-the-counter in the pink sheets. But Berkley believes that by the end of the 1990s Strategic could have annual revenues near $500 million and be a major player in a fragmented market that already exceeds $10 billion a year.

As envisioned by Berkley, Strategic will collect, analyze and resell information on everything from retail prices in grocery stores, to the premiums charged by insurance companies on various policies and coverages. Hundreds of companies, including such well-known firms as TRW and Dun & Bradstreet, are already in the business of selling data of various sorts to clients. But Berkley intends to offer custom tailoring of such data to meet the needs of individual clients. "Focus of information, not speed of delivery, is what will be important in this business," says Berkley. "Getting the right data to the right people—that's the real value added."

Clients will be serviced with everything from printouts to on-line terminals. One feature, available this spring through a 160-million-name database that Strategic recently purchased, will be marketed, for instance, to companies with toll-free phone lines: For a fee, the companies can check the origins of any calls they receive through 800 numbers—even those that don't go through—enabling them to target the dialers for follow-up mailings or sales pitches.

Because Berkley is involved in insurance and food concerns, he is zeroing in on companies in those fields as clients for Strategic. Says he, "An insurer seeking a list of preferred customer drivers doesn't just need a list of drivers who haven't had accidents in recent years; he needs a list weeded of *all* high-risk groups—sports car owners, say—before the information has practical value."

Berkley still spends plenty of time on his other companies. He and his right-hand man, Andrew Bursky, 32, are moving Finevest Foods into frozen-foods distribution. While running his dairy business, Berkley learned that grocery stores are increasingly contracting storage out to independent operators. Such operators can stock a wider variety of product than the stores, which are limited in storage space to a narrower selection of foods. It's a classic Berkley move: Warehousing frozen TV dinners isn't a glamour business, but after the fixed costs of storing the goods, most of the middleman's markup is profit.

Last year Finevest broke with its dairy suppliers to deal with independent sources. The move was singularly ill-timed: When dairy prices shot up during last summer's drought, Finevest had to scramble for supplies, margins were squeezed, and the stock slumped to 8½ from 14¼ per share. But this year, the switch should pay handsomely, as new suppliers provide a cheaper, steadier flow of product.

Meanwhile, W.R. Berkley was one of the first insurers to market a turnkey, or captive, risk-retention group to businesses. These self-insurance groups, which enable companies to handle insurance needs without traditional policies, make up the fastest-growing segment of the property-casualty field. Berkley has also formed an environmental protection subsidiary; the threat of an oil or chemical spill leaves many companies in need of insurance to cover potential heavy damage, meaning high premiums, and high margins for insurers.

After 20 years of 14-hour days at work, Berkley has mellowed slightly. His free time is spent with his family, and collecting model trains, pocket watches and American art. In the last year he has shed 70 pounds from his bulky frame, and he recently bought himself a beautiful 30-foot mahogany Elco boat—"It's not the *Trump Princess*," he concedes, adding that he has not yet found time to use it.

Does Bill Berkley ever miss the glamour and excitement of stock trading? Is selling milk as satisfying as testing his skills against the cream of the investment managers? He replies that he finds his present career far more rewarding. "I don't like making decisions every day," he says. "I make money by making fundamental decisions, then working to influence the outcome." ■

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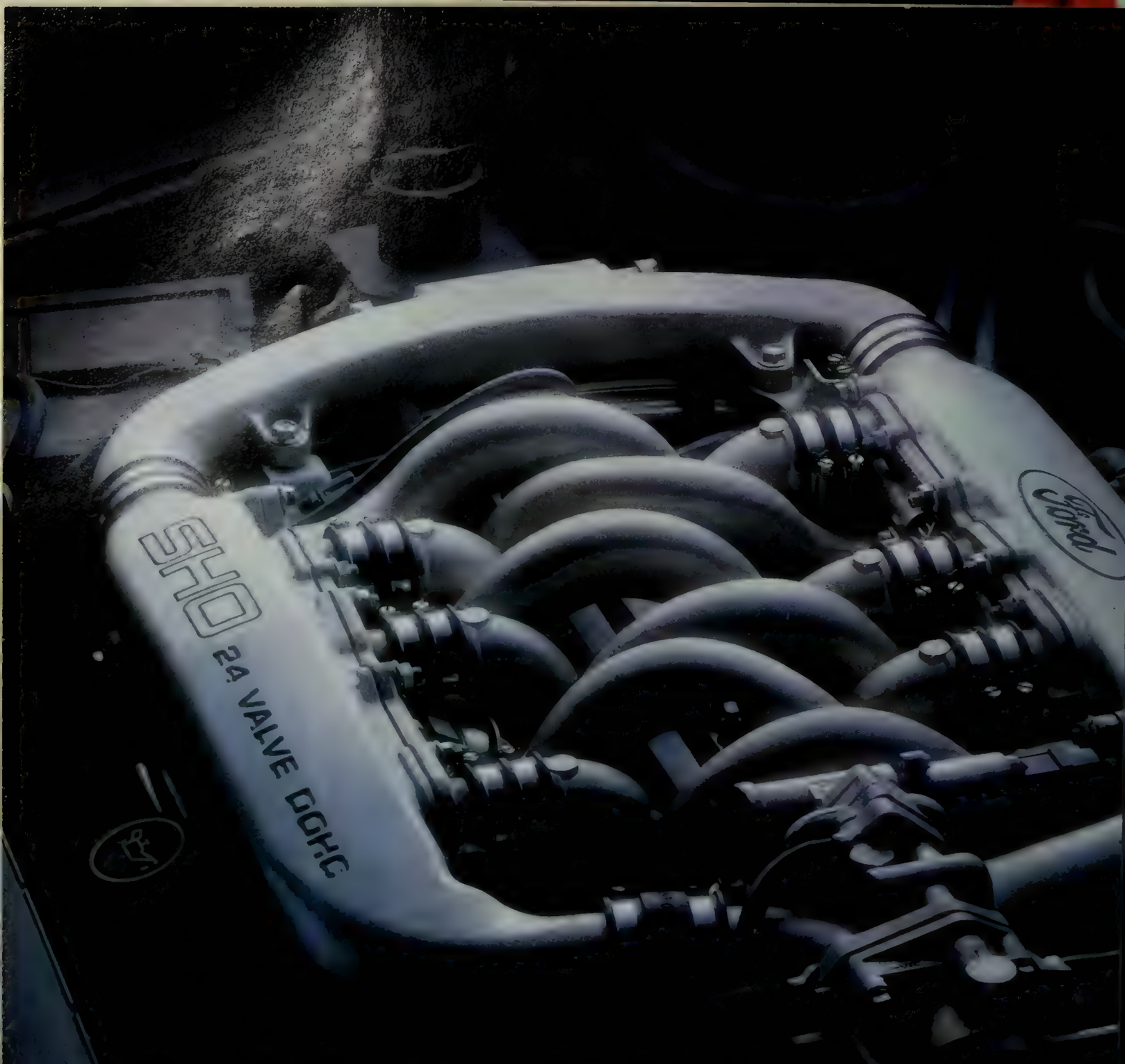

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Have you driven a Ford...lately? Ford

John Torell left a floundering bank to take over a floundering savings and loan. Is he some kind of masochist?

Unhealthy growth

By John Heins

When it became clear that he would not succeed John McGillicuddy as chief executive of Manufacturers Hanover Corp., John Torell left last year for Los Angeles to head $27 billion (assets) CalFed Inc. In leaving a bank loaded with underwater Latin loans, Torell jumped straight into the most troubled part of the banking business, the S&Ls. Frying pan to fire?

Now the fourth-largest savings and loan in the nation, CalFed went on a growth and diversification spree in the early 1980s under the direction of longtime chairman Robert Dockson. It bought or started businesses in insurance, mortgage banking, real estate development, consumer finance, trust services and investment management. Assets grew an average of 21% a year from 1980 to 1987, 60% faster, for example, than at archrival H.F. Ahmanson.

No, CalFed did not lose its shirt. Its core California savings and loan remains healthy and profitable. But the company did get out of balance. Its far-flung office network—with some 300 offices in seven states—is expensive to run, with net noninterest expenses (after noninterest income) growing nearly twice as fast as assets since CalFed went public in 1983. The insurance business ties up a great deal of capital but has never earned much money. Mortgage banking has been a chronic loser.

The result is not insolvency but sagging profits. CalFed earned $4.97 per fully diluted share last year, down 18% from 1987. Return on equity, 15.4% in 1983, was only 10.2%—well under the 14% or so average at other healthy large thrifts. If not for an unusually high percentage of nonrecurring gains on sales of loans, CalFed's profits would have been even worse.

At a recent 21, CalFed shares trade near a three-year low, only 6.2 times estimated core earnings and 65% of tangible book value (after deducting goodwill). Strong competitors such as Ahmanson and Great Western, says Smith Barney analyst Peter Treadway, trade for around 7.5 times expected earnings and better than 100% of tangible book.

The good news from Torell's point of view is that these are the kinds of problems that can be dealt with fairly quickly by good management. With 130 branches in California and 48 in Florida, CalFed has a strong base of loan and deposit business in two of the country's fastest-growing states. Its equity-to-assets ratio is a solid 5%, good enough to weather a downturn or fund modest expansion. The loan portfolio is relatively free of bad loans, with only 1.5% of assets in the "nonperforming" category. Finally, interest-rate risk has been lowered significantly. Fully 87% of CalFed's loan portfolio is in adjustable-rate or short-term loans—loans less susceptible to interest-rate increases—up from 61% three years ago.

Torell has moved quickly to tighten CalFed's operations. He recently sold several underperforming corporate trust and insurance businesses, and a London-based property-casualty insurance unit may be next to go. He and Dockson—who remains chairman of CalFed's executive committee—shut down 19 redundant mortgage banking offices in California and four other states, saving at least $12 million a year. To raise money to plow back into the core thrift business, he's looking to unload some of CalFed's valuable Los Angeles real estate, which is undervalued on the S&L's books.

Next? Look for Torell to build on CalFed's solid mortgage and consumer loan operations by opening new branches or buying other S&Ls in attractive markets around the country. In December CalFed bought troubled Broward Federal S&L in Florida, with assets of $564 million, to expand its presence in that state. Torell also plans to aggressively pursue middle-market commercial lending, primarily in California.

Chas. B. Slackman

With the stock trading at only two-thirds of tangible book value, Torell must get CalFed's sickly profits and market value up, or the thrift is unlikely to survive as an independent. California opens its borders to out-of-state financial institutions in 1991, and CalFed's strong deposit and customer base will almost certainly attract a potential suitor. But whether CalFed gets taken over or survives on its own, John Torell's ministrations should make it a much more valuable company. That would be good news for long-suffering stockholders—and for John Torell, who negotiated himself a handsome contingent compensation package. ■

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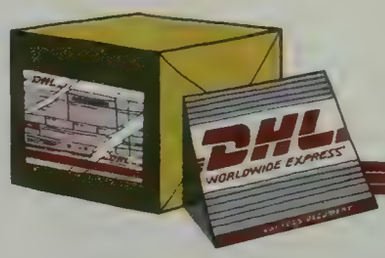

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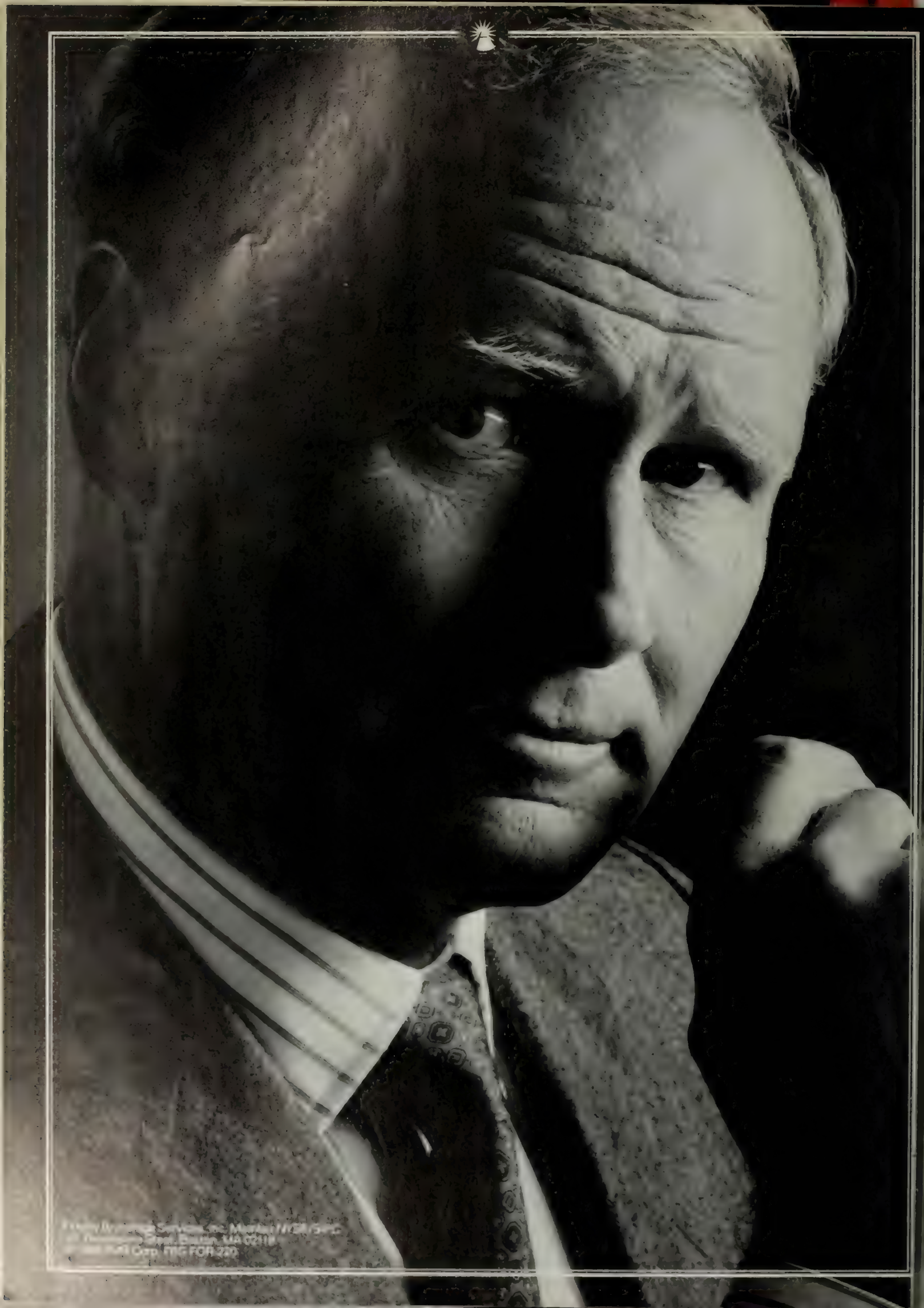

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Gianni Giansanti Sygma

Nothing mixes glamour, big money and advanced technology like international Grand Prix racing. But will success spoil the sport of corporations?

Arms race on wheels

By Richard Behar

THE FIERCELY COMPETITIVE sport of Grand Prix auto racing—the most glamorous and one of the most popular professional sports in the world—is being transformed by technology into a billion-dollar spectacle largely dominated by one company, Honda Motor Co. of Japan. Racing cars using a superadvanced, turbocharged Honda engine last year won [illegible] the season's 16 races, in a display of dominance never seen before in the history of motor racing.

Gilles Lenoir Gamma Liaison

A Honda-powered McLaren car
Expensive and unbeatable.

In the Grand Prix season just ahead, Honda is likely to dominate again. Honda is spending something in excess of $50 million annually at its research center in Wako, Japan, where more than 150 full-time engineers, mechanics and designers work all year long to develop engines for the company's Formula One program. Says Shoichiro Irimajiri, a Honda managing director: "Second place is seldom remembered and never honored."

Rival automakers like Renault and Ford complain that Honda's deep pockets and go-for-broke commitment are pushing the cost of Grand Prix racing out of reach of everyone but the Japanese. Moreover, they grouse that Honda's lavish spending has given the company a technological edge that is taking the drama out of the races, thereby hurting TV ratings, which have lately flattened in many countries.

Don't dismiss such complaints as mere sour grapes or even latter-day ludditism. Honda's determination to raise the stakes of Grand Prix racing is not simply to win races but to help the company achieve something far

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more bankable—a bigger share of the European passenger car market in the 1990s and beyond.

In 1992 trade barriers will at last come down inside the European Community, and imports from the rest of the world are likely to be tightly restricted (FORBES, *July 25, 1988*). To get behind that barrier, Honda has already announced plans to begin manufacturing engines as well as assembling a new passenger car, the Concerto, both in Britain and both exclusively for the European market. In Europe, where road racing has long been a passion, what better way to establish a reputation for performance and quality engineering than with a racing program in which the Honda name is constantly linked with winning Grand Prix events?

Grand Prix racing, also known as Formula One competition, is not only the oldest internationally organized racing program in the world but also the one that boasts the biggest audiences as well as the most technologically sophisticated vehicles. By comparison, the cars competing in the Indianapolis 500, the most popular auto race in the U.S., are often dismissed by the cognoscenti as being "merely built to go like hell on the straightaway and then turn left."

True Grand Prix courses—either laid out along city streets or on looping tracks that are built to mimic country roads—demand constant turns and up-and-down shifting. Formula One machines are lighter and, in many other respects as well, far more sophisticated, employing electronics and composite materials more often associated with the aerospace business than with the auto industry. Backing a typical Indy car is a crew of 25 and a budget of maybe $5 million to build and operate it during a season of racing. A Formula One car powered by a Honda engine can cost $10 million and require 350 engineers and support staff to design and operate for a season.

Honda engineers preparing engines for use on McLaren Grand Prix cars
Second place is never honored.

Grand Prix' annual 16-event season now runs from March to November and stretches from Japan and Australia to tracks across Europe. Each season some 3 million spectators show up in person. Television adds 1.4 billion more from 52 nations—approaching the number that watch the Olympics or soccer's World Cup.

Reaching that audience is what attracts corporate sponsors ranging from cigarette and beer companies to computer manufacturers and fuel oil companies. Last season they spent an estimated total of $400 million to put their corporate logos on the side panels of cars and on drivers' helmets and crash suits.

Leader among all Grand Prix driving teams currently, buttressed by a deal it has signed with Honda, is the McLaren International racing team of Britain, 60% owned by French/Saudi Arabian investors. By winning the most Grand Prix races (and staying in the lead for nearly every lap of every race), the McLaren team cars wound up almost constantly under the scrutiny of television cameras, dramatically increasing their value as 200-mph billboards for the team's two principal sponsors, Marlboro ciga-

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Bernie's "dog and pony show"

The global spectacle that is today's Grand Prix auto racing circuit is chiefly the handiwork of Bernie Ecclestone. The son of a boat skipper, he built one of the U.K.'s largest used car dealerships after World War II. But his true love was racing cars, not selling them. In 1971, thriving and ambitious, he paid $600,000 to buy and promote a Formula One team.

Once involved, Ecclestone found the sport impoverished and chaotic. "Nobody knew from month to month where they would race," he recalls. "And some teams wouldn't show up anyway." Who could blame them? With each team having to negotiate separately with each race promoter, many couldn't secure enough advance money to cover their hotel bills.

Terry O'Neill/Woodfin Camp

Bernie Ecclestone, the Don King of Grand Prix racing
A one-man monopoly.

Ecclestone unionized most of the team owners to increase their bargaining power and revenues. Through the years he has also demanded that race organizers keep their circuits classy and clean. Says Robert Tyrrell, whose family owns Britain's Tyrrell team, "Bernie has gradually made it the sort of event where the chairman of IBM would be proud to turn up. It's become a Class A act."

Ecclestone now runs this class act as a one-man monopoly, controlling everything from where races are held to who promotes them. His control is so complete that anyone seeking to organize a Grand Prix race, which can cost as much as $20 million to stage, must pay Ecclestone's union, the Formula One Constructor's Association, upwards of $3 million.

Of that, approximately $1 million is earmarked for prize money, with some additional going for flight and hotel expenses for the entire 16-team caravan—the "dog and pony show," as Ecclestone himself has called it. The rest of the money sticks to Bernie. How much is that? No one knows, and he's not saying.

Still, insiders guess that Ecclestone takes upwards of $1 million per race, partly because he also has personal financial stakes in at least 10 of the 16 races currently on the Grand Prix circuit. Says Ecclestone himself, who recently paid an estimated $30 million for the London home of arms dealer Adnan Khashoggi, "I'll take as much money as I can get. I don't get as much as I should, though."—**R.B.**

rettes and Shell Oil.

"For 90% of the race, the cameras are on the leading car," says Frank Williams, head of Canon Williams, a popular rival Grand Prix race team. "So a company sponsoring a team in the rear would like to know why it should spend all this money and not get TV exposure."

The McLaren team's success, of course, begets more success—more advertisers willing to back them with bigger money. Its drivers, universally acknowledged to be the best in the sport, now command premiums that most rival teams simply cannot match. Americans dazzled—or appalled—by the $2.3 million a year Ozzie Smith earns as the highest-paid player in baseball should compare that with McLaren-Honda's top stars, Alain Prost and Ayrton Senna. In 1988 they received "retainers" from McLaren of roughly $6 million each just for showing up to race. The two earned millions more in licensing deals. Finally there's the added boon of residing in tax havens—Monaco for Brazilian-born Senna and Switzerland for French-born Prost. These two are among Europe's richest young men.

Frightened by the escalating cost of the effort, other carmakers have begun to have doubts about trying to overtake Honda. Ford, once the dominant enginemaker on the Grand Prix circuit, now squeaks by on a modest $10 million to $15 million annual budget and openly wails for the need to put spending controls on the sport. Mercedes-Benz considered entering cars in the 1989 season, which begins in Brazil in March, but has since backed off.

The man put most clearly on the spot by these changes is the impresario who single-handedly controls Grand Prix racing, a onetime British used car dealer named Bernie Ecclestone. Over the last 17 years Ecclestone, 60-ish (he won't reveal his age), has presided over the sport's expansion from a car buff's cult into a global crowd pleaser. In the process he has become one of the richest and most powerful sports promoters in the world—a kind of high-octane Don King for the rich and superrich *(see box, above)*.

So what is he doing about the problems facing his suddenly too-rich sport dominated by one team? Like King Canute, Ecclestone has bade the tides of technology cease and desist. Specifically, Ecclestone and the Fédération Internationale du Sport Automobile (FISA), the sport's rulemaking body, have implemented a ban on turbocharged engines, of which Honda's is by far the best. Beginning this season, all Formula One cars must use lower-horsepower, normally aspirated engines—an odd position, to say the least, in a sport in which going faster is the point.

The ban is pointless anyway. Anticipating it, Honda has already developed a new 3.5-liter, normally aspirated V10 engine that is expected to be as fast as, or even faster than, its now outlawed turbo. "Deep down, everybody expects McLaren-Honda to walk away with the championship again in 1989," says Michael Kranefuss, head of Ford's Grand Prix program. "And you'll probably see more sponsors and carmakers backing out over the next few years."

Banning progress or bailing out is obviously no answer. In the short run, relinquishing the track to a company like Honda may save rival carmakers some money. Longer term, though, the decision not to compete on the race track could wind up costing the companies much more money in the form of market share lost to an intelligent, aggressive competitor from the other side of the world. ■

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There's more to solar energy than photovoltaic cells. It seems another kind, thermal solar power, is closer to market pricing than you might think.

Warming trend

By James Cook

EVEN BEFORE DAWN breaks over the Sierras, computer systems begin positioning some 540,000 parabolic mirrors to catch the light at Luz International's 840-acre solar electric generating station at Kramer Junction in California's Mojave Desert. Row upon row, the mirrors lock on the sun as it rises and follow it across the sky until dusk, focusing its rays on a thin, black-coated stainless steel pipe. The sun heats the stream of synthetic oil that flows through the pipe to 735 degrees Fahrenheit. Circulated through heat exchangers in a nearby power block, the superheated oil flashes water into steam, and the steam drives a conventional turbine generator to produce electricity for sale to Southern California Edison in Rosemead, Calif.

The world of tomorrow here today? A part of it anyway. It took over four years and $750 million for Luz to get this far, but get there it did. The Luz generating units now in operation, each rated at 30,000 kilowatts, claim the distinction of being the first really commercial-scale thermal solar energy installations in the world.

Scale is one thing, profits another. The Luz plants, owned by a consortium of corporate investors, have depended on various state and federal benefits available to encourage development of alternative energy sources. Without such help Southern California Edison wouldn't be paying higher than market price for the electricity it now takes from Kramer Junction under a 30-year contract, including 7

Chad Slattery

Operating boss James Bazor at the Luz solar energy station in the Mojave Desert
Hoping to make hay when the sun shines.

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Chad Slattery

The power block at Luz' solar energy station near Kramer Junction, Calif.
If the price is right, why wouldn't you go solar?

years at fixed prices. And without various tax benefits, investment in the project would not make much economic sense. Even so, the Luz plants are getting close to being fully competitive. The newest can produce power for under 12 cents a kilowatt-hour, about what a lot of new nuclear power stations do.

Headquartered in Los Angeles, Luz was founded in 1979 by a Rhode Island-born Israeli electrical engineer, Arnold J. Goldman, and a French-born Israeli textile manufacturer, Patrick Francois. Luz was the biblical site of Jacob's ladder, which Jacob renamed Bethel, the place where God dwells, when he saw the angels commuting between heaven and earth. That image gives you some sense of the company's aspirations.

Goldman, now a taut, dark-haired, 45-year-old Californian, is a man of parts. Armed with an engineering degree from the University of Southern California, he put in some time with such corporations as Litton Industries. And then, on his own, he designed one of the first word processors, started an outfit called Lexitron Corp. to produce it, and eventually sold out to Raytheon. By then, he had already begun fooling around with solar energy—not photovoltaic cells of the sort Chronar Corp. claims will soon become competitive in the utility market (FORBES, *Dec. 12, 1988*), but thermal solar power using solar heat to produce steam for conventional electrical generation. Goldman designed the heat-collection elements and the sun sensors and computer controls that are at the heart of the Luz system. His partner, Patrick Francois, drummed up the money to get the project off the ground.

With some initial backing from a joint U.S.-Israeli research agency, Francois and Goldman rounded up nearly $40 million from a group of private investors, including San Francisco's CP National, which owns 38% of the stock.

The proceeds went initially into research and development and later into manufacturing facilities in Israel. "The technology was more or less there," says Francois. "The idea was to take what had been a kind of lab experiment and bring it up to commercial scale."

With seven plants currently in operation, Luz earned $5 million on $155 million in sales last year. Most of that, though, came not from solar power production but from the sale of equipment Luz manufactured to build the various plants. Luz manages and maintains the plants but has no equity in them to speak of. The plants were built as limited partnerships, with large corporate investors like Potomac Electric and Prudential Insurance providing the required debt and equity.

"We saw ourselves as an equipment manufacturer," Francois explains. "We had better use for our money reinvesting in development to keep ahead of declining energy prices and declining tax rates. We started somewhere around 24 cents per kilowatt-hour, but we knew we had better be able to go to 5 cents to 6 cents per kilowatt-hour if we were going to get into the business. You do that either by reducing the cost of the equipment or by increasing the efficiency of output."

The first of five 80-megawatt solar units, a giant step ahead in scale, is slated to go into production at Harper Lake, Calif., 12 miles from Kramer Junction, later this year. The new units will cost about $1 billion altogether, boast more than twice the capacity of Kramer Junction and produce power at less than 8 cents a kwh. For Luz, that means commercial solar energy will at last have arrived.

And not a moment too soon. The tax benefits will run out with the completion of the first of the five new units, and the fixed-price power contracts with Southern California Edison will end after completion of the last of the five plants. So the question is, where does Luz go from there?

The answer is, into the solar energy business for the first time, with the present owners very likely selling stock to the public as they go. "As of 1990," says James C. Bazor, Luz' chief operating officer, "we expect our system to compete on pure economics without any tax breaks."

Bazor joined the company last April to provide the professional management Luz needs if it's going to compete on equal terms in the energy market. He surely knew what he was getting into. He came over from Blount, Inc., the contractor that built the Luz plants.

Jim Bazor doesn't see Luz solar units driving fossil fuel or nuclear plants out of business ("We cannot provide power for base loads") nor even making much of a dent outside the American Southwest ("because of the obvious link with the sun"). But Luz can provide peaking power, potentially lots of it, in summer, when air-conditioning sends power demand through the roof. Peaking power will be needed in the years ahead, Bazor says, and that's what Luz is ideally equipped to provide.

The economic and marketing prospects are so encouraging that Luz is already negotiating with potential customers in Spain, India and Israel and trying to drum up business in Arizona and New Mexico. In such places Luz hopes to supply solar energy systems and hardware, not to operate power plants. "There is no reason for power companies not to own and operate solar equipment the way they do any other power source," says Bazor. "If you can have environmentally benign power on economic terms, why would you go to a nuclear plant or anything else?"

Why, indeed. An argument that even the arch-conservative utility industry is likely to find compelling. ■

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Will the Japanese beat us out in high-definition television? It doesn't much matter if they do. Here's why.

IBM-TV?

By George Gilder

If you have been reading the business press recently, you can't have missed the drumroll call for an American industrial policy to catch up with Japan's lead in high-definition television, or HDTV.

The whole issue is phony. Japanese HDTV will be obsolete by the time it triumphs. In the 1990s it will simply replace the technology of 1940 with the technology of 1980. The Japanese products will enter the mass consumer market at precisely the time when the U.S. computer industry will be able to supply far more powerful video products at a lower price.

Here's what's really going on:

The line between "television"—a business where Japan now reigns supreme—and "computers"—where American industry holds the best cards—is blurring every day. The TV set of the future will be not an improved version of today's but a computer. Beyond the 1990s, says Nicholas Negroponte, head of MIT's Media Lab, "Your TV set will probably have 50 megabytes of random access memory and run at 40 to 50 MIPS [millions of instructions per second]. It'll be basically a Cray [super] computer."

Price? Within seven years, such computing capacity will be available for high-definition image processing, at a cost of well under $1,000, predicts computer industry analyst Mark Stahlman of Sanford C. Bernstein. Who, then, will buy Japan's new and improved buggy wheel?

The components of this computer are already being prepared in the workshops of such U.S. firms as Intel, Apple, IBM, Texas Instruments, DEC, AT&T, Kurzweil Applied Intelligence, Sun, Next and scores of others. Most of these companies do not now see themselves in the television business. But if they pursue the promise of the technology with fierce entrepreneurial verve, they will have a far greater impact on the future of TV than Sony or Matsushita.

More than the prosperity of the electronics industry is at stake here. Japanese HDTV technology is based on receiving the same across-the-airwaves television signals that have been at the heart of broadcast regulation since the birth of television. Japanese HDTV will present a sharper picture, but it will also prop up the franchises of the broadcast networks and near-monopoly TV stations.

By contrast, the leaps forward in video/computer technology will take power away from the professional programmers and give it to the individual viewers themselves. It will put the viewers into the picture, allowing them to reshape the image as they wish, rather than treating them as inert couch potatoes.

The new television/computers—if you will, telecomputers—will far exceed HDTV in presenting news and entertainment programs, as well as interactive games, educational materials and commercial opportunities for active users. They will provide the programs, not over the air, but digitally, through an ever expanding network of mostly fiber-optic cables.

The fivefold improvement in resolution offered by Japanese HDTV is impressive, but only by the standards of the television industry, which makes one step forward every 20 years or so and calls it a revolution. Its landmarks to date are television in 1923, color TV in 1954 and the videocassette recorder in 1972.

Far from a revolutionary leap forward, the new Japanese HDTV system is based on current television technology. Although the Japanese will add some digital functions, the HDTV set will still have to deal with the difficult problem of receiving and processing the high-powered high-frequency analog wave forms that are alien to the low-power digital world of computers. The Japanese system will still receive basic program input from a relative handful of government-licensed broadcasters.

The Japanese are already the world's dominant force in producing television sets compatible with current standards. That is why they want to see the current system extended rather than replaced.

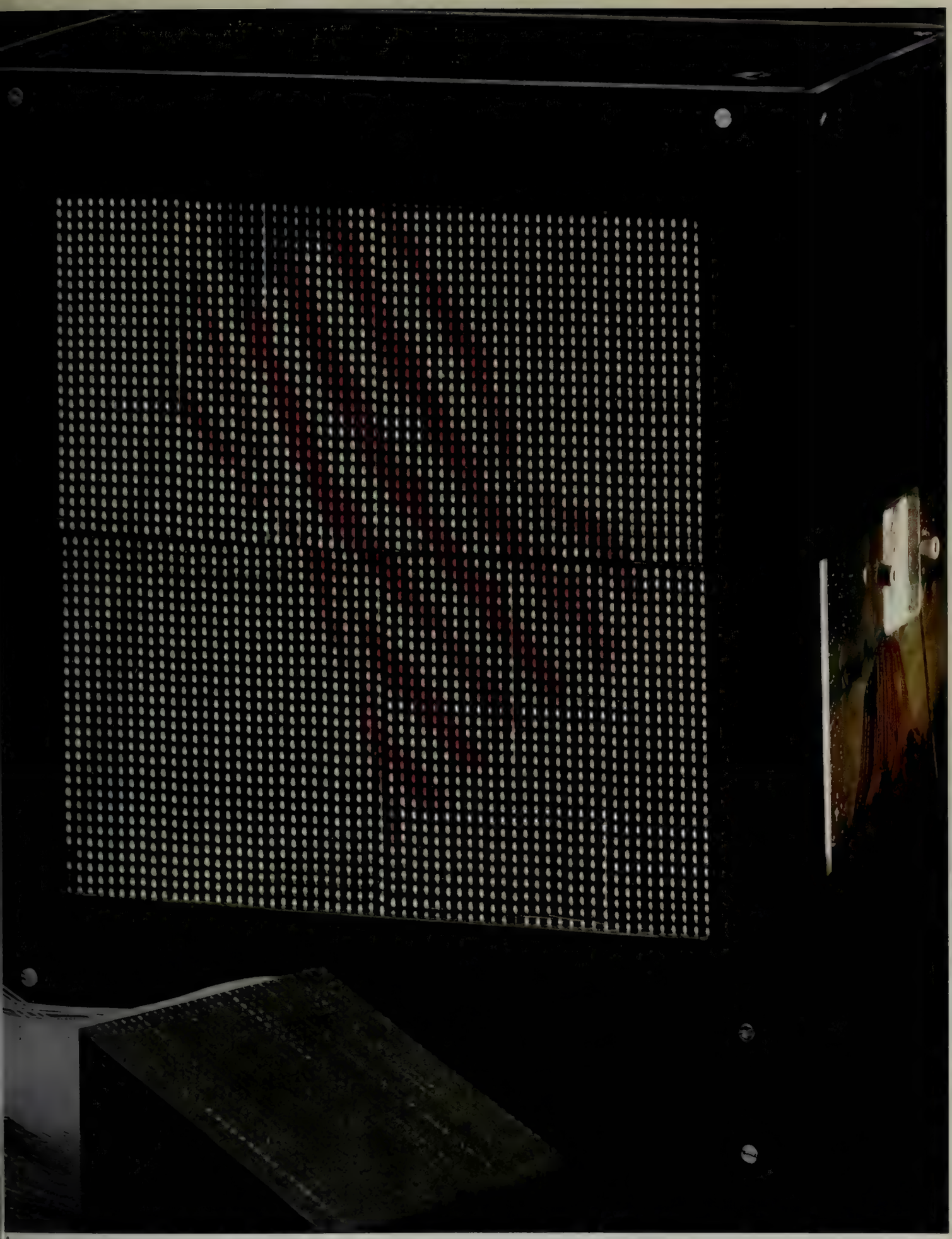
By 1992 or so, made-in-Japan HDTV sets may well be available at Sears and K mart. With their HDTV system, the Japanese aspire to set the standards for broadcast images for the next 50 years. Hence the fear of many in the U.S. electronics industry that HDTV is a kind of Pearl Harbor in the offing.

Consultant/author Peter Drucker says a competitor should never try to catch up. The goal should instead be to leap ahead, with a new technology. That's the beauty of the U.S. lead in computer technology. By applying it to television, the U.S. industry can leap ahead of HDTV and leave the Japanese with an empty victory.

The video computers of the future will have virtually no current television technology in them—no high-voltage vacuum tube with an electron gun spraying serial streams of charge millions of times a second, no high-powered, high-frequency antennas, transponders and gigahertz converters, no processing of analog waves, interference and weather spikes. The telecomputer of the future will be a solid-state computer, cheaper, more energy efficient and far more powerful than any television-based technology.

If IBM, Intel, Apple and others in the U.S. electronics industry aggressively approach television as a natural outgrowth of computers, then there is every likelihood that U.S. companies will again become a major factor in the home entertainment business.

Thus looked at clearly, the situation is quite different from what one would conclude from all the gnashing of teeth about the Japanese winning another business victory. Last year General Electric sold its RCA television factories to Thomson of France. This left Zenith Corp. as the U.S.' only producer of televisions, and Zenith is hanging on by its fingers (FORBES, *May 30, 1988*). GE's move also contributed to widespread fears that the U.S. is losing ground in electronics. Sounding off on this last month,



A part of a prototype 9-by-12-foot fiber-optic display screen, produced by Fiberview Corp.
According to Fiberview's president, the screen uses only 1% of the electricity that a similar-size advanced Japanese screen uses, weighs 20% less and will cost one-quarter as much. Fiberview's next trick will be moving this breakthrough into the living room.

electronics industry spokesmen, angling for government aid for HDTV, bewailed new data that showed a drastic drop in U.S. market share in electronics since 1984.

The figures they used, however, are flawed. The numbers ignored the 80% appreciation of the yen during that period. Except from the rather narrow vantage point of consumer electronics, the U.S. remains dominant in information technologies.

Yes, Japanese firms control some 65% of the world market in consumer electronics. But the U.S. still holds some 70% of the world market in computers, and has an even greater lead in the crucial domain of computer use. The U.S. currently has five times more computers in use than does Japan. Per capita, the U.S. has an installed base of computer power nearly three times larger than Japan's. There are now 40 million personal computers in use in this country.

Steven Begleiter

Sarnoff Research Center's Laurence Ryan
Advancing far beyond Japanese HDTV.

In worrying about Japanese domination in TV sets, Americans tend to overlook that personal computers will one day be as ubiquitous as TVs. In the U.S. today the ratio is about one computer for every five TV sets, but the gap is rapidly shrinking.

GE's Jack Welch and some other key U.S. industrial leaders understand the situation better than most of the media commentators and gloom spreaders. Welch did not sell off to foreigners RCA's crown jewels. He kept for GE the firm's TV patent rights, and he spun off RCA's David Sarnoff Research Center to SRI International. It looks as if GE simply decided to drop a fast-obsoleting kind of hardware.

Other smart American business people see the same thing. The most important new product in the offing at Intel Corp. is not its highly hyped 486 microprocessor but its DVI (for digital video interactive) chip set for compact discs. Developed at the Sarnoff labs and recently purchased by Intel from GE, this invention represents an advance in video imaging that far surpasses any feature of the Japanese system of HDTV.

A critical problem in transforming nature's analog information into digital data is computer storage capacity. With a capacity of some 660 megabytes of data (the equivalent of about 600 big books), compact discs currently find their chief use in high-definition audio, which requires about 100 times less data than video. For showing noncompressed video images over a digital system, CDs are far too small and slow. (The ill-fated video discs of a few years ago were analog.) With existing technology, a compact disc could hold less than a minute of full-motion video and would take two hours to show it. The system is far from a full entertainment medium.

The Sarnoff Research Center DVI breakthrough changes all that. Here is U.S. technology leadership flexing its muscles. Using silicon compiler technology inspired by California Institute of Technology's Carver Mead (FORBES, *Apr. 4, 1988*), and working under the direction of Sarnoff Labs' Arthur Kaiman and Lawrence Ryan, Sarnoff engineers startled Microsoft's CD-ROM conference two years ago with a 100-to-1 reduction of audiovisual data, allowing disc storage of 72 minutes of sound and full-motion video. DVI also provided a superfast graphics technology that plays back the stored image in real time.

Most important, all these video images are fully digital. That means they can be manipulated interactively, for games or educational programs.

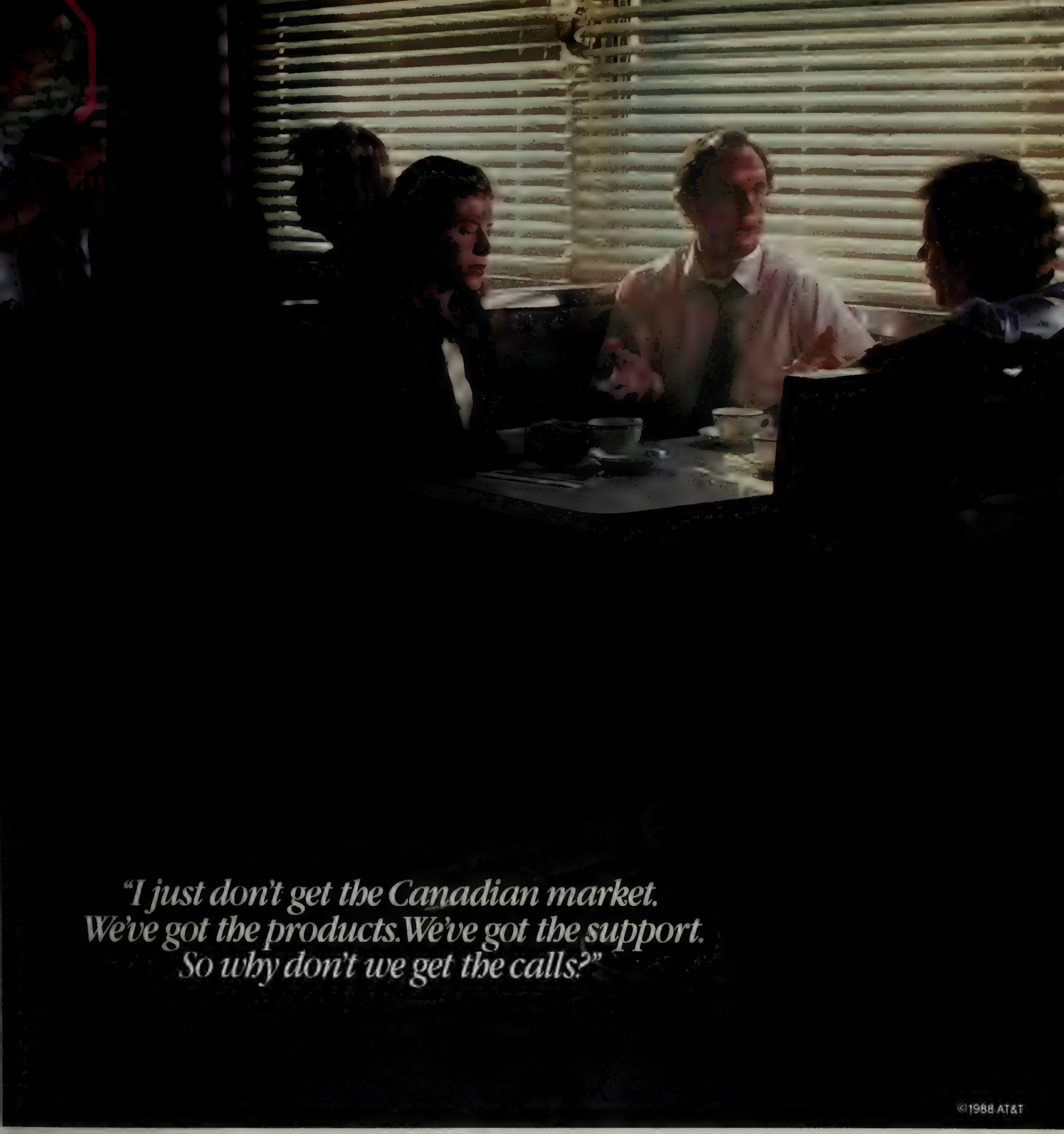
With DVI, a feature-length movie will soon be held on just two CDs, and any frame can be randomly accessed and interactively manipulated. For example, in a real estate presentation, the viewer sitting at a screen can enter the picture and "walk through" a room; he or she can repaint the walls or move and reupholster the furniture or even open shades and look out the window—all on the screen. Or a medical student could perform a simulated surgery; or a student pilot could fly a plane. The viewer of a televised football game could record and watch it from different vantage points.

Using any digital medium, especially fiber-optic cables, DVI will eventually provide smart graphics capability that far transcends anything in the Japanese HDTV scheme. What makes DVI a breakthrough, however, is not just its capabilities, which can be reproduced by a $10 million supercomputer, but its low potential cost. Last October Intel acquired the DVI technology from GE and hired the engineers from the Sarnoff Research Center in Princeton. Combined with Intel's new 50-MIPS microprocessor, the N-10, DVI technology means that Negroponte's graphics supercomputer, projected to be decades away, will soon exist at Intel—at about $1,500, versus $5 million to $10 million for a Cray supercomputer.

Another important potential advance from the U.S. video industry is the solid-state display system invented by William Glenn of New York Institute of Technology's Research Center in Dania, Fla. A former vice president of CBS Laboratories, Glenn is using fiber optics to create a panel about 3 inches thick; this "screen" is about the size of a large picture frame, and combined with a solid-state internal projector offers a radically different and far cheaper low-voltage system to display graphics information.

Fiberview Corp., a small technology company in Boulder, Colo., has licensed Glenn's technology *(see illustration, p. 73)*. Fiberview President Brett Kingstone believes that within three years the company will be able to produce fiber-based flat displays in mass production quantities for the consumer market.

The future of a U.S.-dominated "television" industry is not merely in computers but in networked telecomputers. That means the country's telecommunications industry—and not least the regional telephone operating companies—must be encouraged to start tying together these digital



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There is both hope and frustration here. Bell Laboratories and Bellcore Laboratories are actively developing the network, signal processing and digital switching technologies that will be necessary to deliver full interactive video to all American homes (FORBES, *Sept. 19, 1988*). Unfortunately, however, many politically powerful media interests would like to stop this progress. The objectors include publishers, the broadcasting networks and local monopoly cable franchisees, which want to hobble the Bell companies on the grounds that they are dangerous monopolists. This, of course, is self-serving nonsense: The publishers, broadcasters and cable companies simply want to protect their own near-monopolies.

We hear much talk today about the need for the U.S. to adopt an "industrial policy" to enable our companies to compete with the Japanese. Fair enough. But when many people speak of industrial policy what they really want is protection for their own selfish interests—just as the cable people wrap themselves in the mantle of small business when they want to block the Bell companies.

The best kind of industrial policy would be for the government and its agencies to get out of the way and give entrepreneurs a chance. They could start by reducing the high taxes on capital gains.

Steven Begleiter

Video breakthrough
With Sarnoff Lab's DVI, feature-length films on just two CDs.

They could also persuade Judge Harold Green and others with control over U.S. telecommunications policy to get out of the way of the Baby Bells' ambitions to compete in all forms of voice/data/video distribution. In a global economy in which U.S. firms face rivals from around the world, the very basis of antitrust law is mostly obsolete. The only really dangerous monopolist is the government, and its client firms protected from global competition.

In this respect, the current Federal Communications Commission stance under Dennis Patrick is about right. It refuses to grant extra bandwidth in the radio frequency spectrum for many direct broadcast satellite service and other centralized broadcast-oriented standards, such as the Japanese are offering. Many congressmen dislike Patrick's pro-deregulation approach. But since television has the far better alternative of fiber and cable, the FCC is right to doggedly refuse to provide TV broadcasters with scarce spectrum space. That space is sorely needed by such mobile systems as cellular phones, paging systems, CB radios, air and ground traffic controllers, and a wide array of other mobile systems for police, medical, military, trucking, Federal Express and other public needs.

With its commanding leads in most of the important computing and telecommunications technologies, U.S. industry has every hope of being a strong competitor in the home entertainment and information businesses of the future. But we should think beyond the current TV, and we should trust in entrepreneurial instincts more than in government planners. The danger in confronting the Japanese challenge is not that we don't have enough government involvement but that we already have too much, and of the wrong kind. ■

The ad killers

It could be broadcasters' worst nightmare: The automatic ad-zapping machine. If you take at face value the threats from a little West Coast firm, it sounds as if technology could make broadcasting obsolete long before every home is wired with fiber-optic cable.

Metaview, a San Francisco startup, is offering a device that it says could kill commercials. Its SmarTV is a combination VCR, personal computer, modem and jukebox-like tape changer. A customer buys the system and tells Metaview's computer what he wants to watch. Once a week, late at night, the customer's system automatically calls up Metaview's computer and gets a list of things to tape for the upcoming week. SmarTV takes care of the rest, recording the programs and storing them for the customer when the time comes to watch the shows.

An expensive ($6,000) way to let someone else program your VCR for you? Yes, but Blair Newman, founder of privately owned Metaview, says the system could go a step further and kill commercials altogether. How? A Metaview employee would monitor the shows, mark the start and stop times of each ad, and provide that data to the customer's SmarTV. Then the machine zaps the ads at the appointed times.

Newman says he won't offer the zapping service: "Free TV provides an important social service. Congress should pass a law to prohibit automatic ad elimination because ads provide television to people who can't afford these gadgets."

How magnanimous of him. But what he can't do, somebody else can do. And how can Congress constitutionally outlaw a zapping service? To be sure, it's a copyright infringement to capture a television signal and rebroadcast it without the ads. But what if the offending activity consists merely of providing information about ad times, a sort of computer-readable *TV Guide?* The First Amendment would protect it, says Berkeley law professor Stephen Barnett.

In this situation it would be the viewer who does the dirty deed, erasing the ads. But outlawing such behavior would be like declaring it a copyright violation if a viewer gets up for a beer when an ad comes on.

The Metaview SmarTV is now an expensive gadget and no threat to the networks. But the technology needed to soup up a VCR to do the same thing is here now and fairly inexpensive. Indeed, Newman has put the system's specifications into the public domain so he can get out of hardware and into the business of publishing an electronic rival to *TV Guide.* Rupert Murdoch, watch out.—**David Churbuck**

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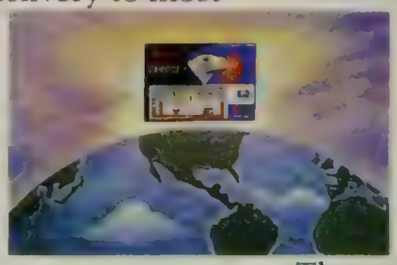

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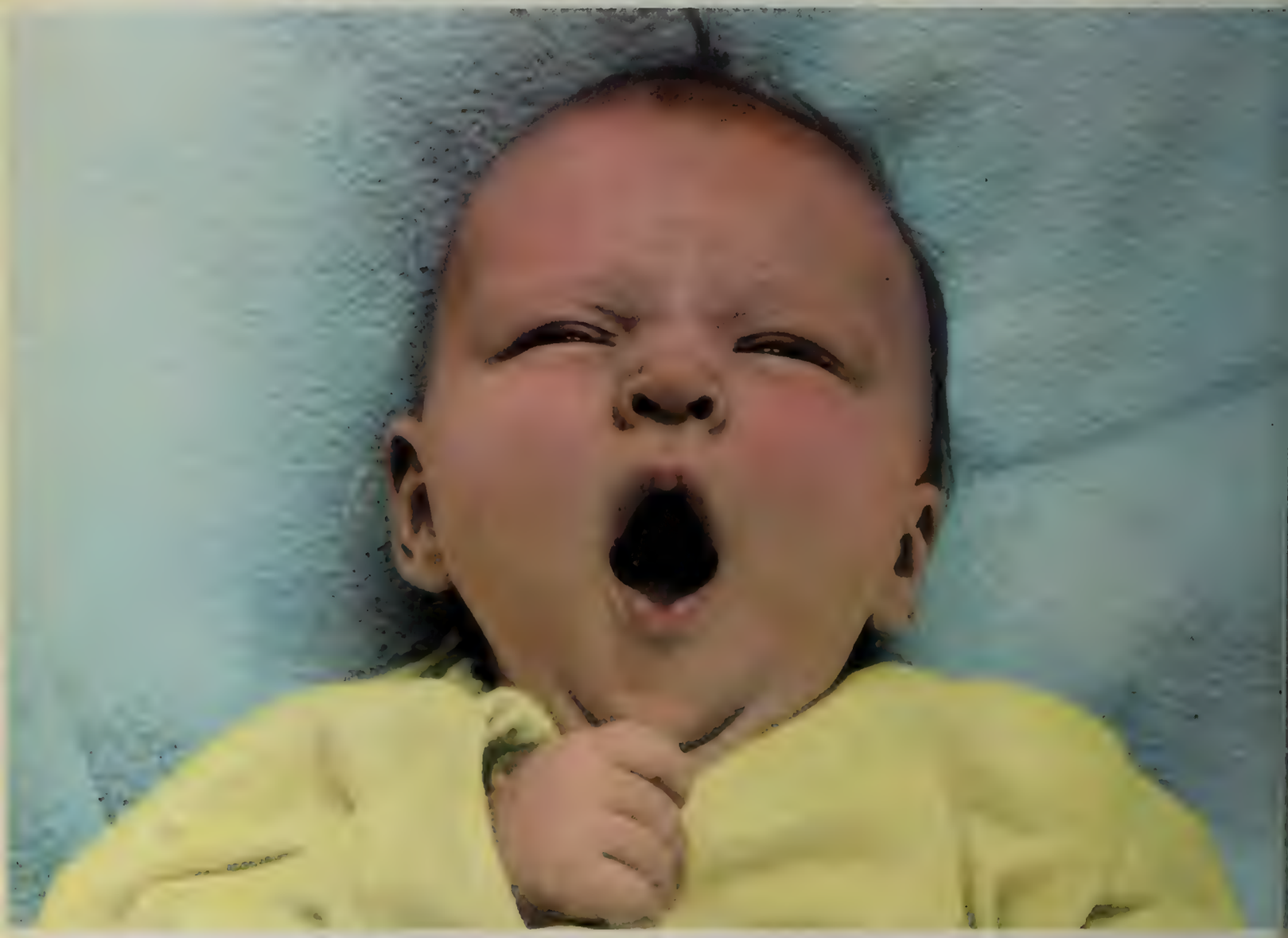

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Tiny, moneylosing Go-Video consists of an untested patent and a $4.5 billion lawsuit nearing trial against the Japanese.

A roll of the dice

By William P. Barrett

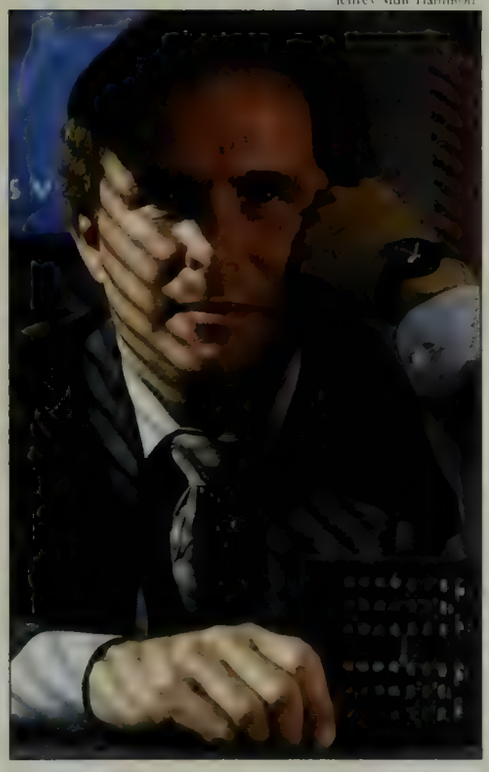
GO-VIDEO INC. is a tiny (fiscal 1988 revenues, $500,000) Scottsdale, Ariz. company traded over-the-counter. Its assets: an untested but promising patent and a $4.5 billion antitrust lawsuit against such Japanese industrial giants as Sony Corp., Victor Co. of Japan (JVC) and Matsushita (Panasonic).

The company's sole product is a dual-deck videocassette recorder, one that will duplicate tapes—though not all tapes, since the company has already agreed to jigger it to prevent duplicating certain movie rentals—and allow a viewer to play one tape while recording a TV show on another. Now that may not seem like such a remarkable idea; after all, you can do much the same thing by connecting two regular VCRs with a cable. But none of the Japanese companies that dominate VCRs worldwide currently makes a dual-decker. Go-Video outhustled them by filing a patent application for its prototype, the VCR-2, in 1984, as Americans were becoming hooked on single-deck VCRs.

As its hopes waxed and waned last year, Go-Video's stock rose dizzily from 81 cents a share bid to $22.50—meaning a market capitalization for its 5.3 million shares of nearly $120 million—before crashing back to a present level of around $5.50. On several days, more than 15% of Go-Video's shares changed hands. That's mighty hot action for a new firm that has lost $3.5 million on revenues of just $1.5 million since 1983.

When Go-Video announced in June that its U.S. patent application had been granted, the stock jumped 33% in a day. When a Sony subsidiary was dismissed from the antitrust lawsuit, the stock fell 11%—only to rebound when investors realized the parent company was still a defendant.

Jeffrey Muir Hamilton



Go-Video Chairman R. Terren Dunlap
Swimming in murky legal waters.

The stock also dipped 20% in November on news that Go-Video's new president, Eric J. Schedeler, had been barred for life as a stockbroker by the National Association of Securities Dealers, primarily for not responding to a minor grievance filed by a customer where he once worked. Go-Video says that Schedeler, who is appealing, never received notice of the pending complaint.

The company has done everything it can think of to keep in the news, portraying itself in David-versus-Goliath terms. Chairman and Chief Executive R. Terren Dunlap has gotten on the *Today* show, for example. He charges the Japanese are trying to hog the entire VCR market for themselves in what amounts to an illegal cartel under American antitrust law. Specifically, he says the Japanese VCR industry collectively refused to grant Go-Video licenses covering the patents for the head and drive assembly—essential to any VCR—while discouraging Far East manufacturers from agreeing to make the device.

Represented by well-known San Francisco lawyer Joseph M. Alioto, son of the former mayor, Go-Video in 1987 sued more than two dozen companies in the nearby Phoenix federal district court, seeking $1.5 billion in damages—which the antitrust law automatically triples to $4.5 billion—as well as access to the necessary parts. Since then, minor defendants have paid out about $2 million in settlements. After exhaustive pretrial discovery, including depositions from such top-level Japanese executives as Sony Chairman Akio Morita, the case is scheduled to be tried late in the summer.

What are the real issues here? It seems clear the Japanese electronics industry agreed not to support such a deck; its trade group publicly announced as much in 1985. So the main legal question becomes whether the Japanese companies, which all deny liability, acted individually and had permissible business reasons for this decision, such as lack of market demand, lack of available production facilities or unreasonable terms sought by Go-Video.

Not surprisingly, Go-Video's short interest is about 17%, one of the highest around, meaning many are betting on a price drop. And recently Dunlap himself sold 120,000 of his 700,000 shares at about $10, nearly double the current market price. He says he was just "diversifying my portfolio."

It's not clear how many people will want a VCR priced at $650 that won't be able to copy all movie tapes. Go-Video's patent also has yet to be tested in an infringement lawsuit. However, at a minimum there seem to be plenty of commercial applications for the machine, such as copying a chief executive's TV appearance for company board members.

And then there is the big antitrust lawsuit, to be tried in Go-Video's backyard. It wouldn't take much of a verdict to greatly increase Go-Video's net worth. Since Alioto is suing the Japanese on a contingent fee basis, Go-Video seems to have enough cash to last through the trial, expected to go several months. Says Alioto, "The value of the stock is going to be determined by the end of this year." ■

Not very long ago, a dominant newspaper was a priceless franchise, a license to print money. But now, some of the franchises are starting to fray around the edges.

Citizen Kane meets Adam Smith

By Subrata N. Chakravarty with Carolyn Torcellini

MODERN ECONOMIC theory isn't right about a lot of things. But it is right about this: In a relatively free economy, competition makes it next to impossible to earn high rates of profits for very many years running. However secure the possessor of the business may feel, others will find a way to get a piece of the action, and the competition will drive down prices and profit margins. As theory, this is as old as Adam Smith and as modern as the papers read at December's session of the American Economic Association.

For the real-world relevance of this theory, check out what is happening today in newspaper publishing. Long considered a monopoly or "franchise" business where high profitability was all but guaranteed, newspaper publishers are beginning to hurt. Profit margins are stagnant, even for those daily newspapers that dominate their local markets.

Consider: In FORBES' 41st Annual Report on American Industry *(Jan. 9)*, the eight newspaper publishers listed ranked second only to soft drinks among industry subgroups in median long-term return on equity (with a median five-year return of 23.9%) and fourth in median long-term growth in earnings per share (19.5%).

But the glory days have dimmed. In the most recent 12 months, the newspaper subgroup tumbled to 13th place in median return on equity (19.7%), and to 50th in median earnings growth (13.6%).

Reflecting all this, the stock market downgraded newspaper stocks. They were considered growth stocks when their earnings were growing rapidly. But with margins flattening, newspaper stocks were among the worst performers of 1988.

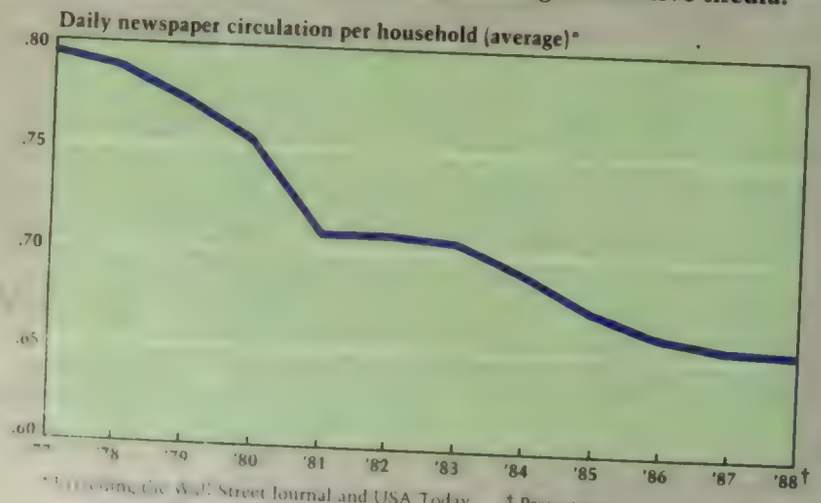
According to the McCann-Erickson advertising agency, newspaper advertising revenues failed to keep pace with the growth in gross national product in 1988—for only the second time since 1975. Nor, the agency projects, will advertising as a whole do so in 1989. Lynch, Jones & Ryan media analyst John Morton says: "The era when newspapers could count on double-digit volume increases in recovering economies is behind us. I don't think they'll ever be seen again. There are too many competitors."

Newspaper companies are looking elsewhere for growth. Dow Jones & Co. has invested heavily in Telerate and in electronic databases. Knight-Ridder and Times Mirror are betting on databases, too, and on cable systems. Gannett and the Tribune Co. have large independent television station groups and are also involved in TV production. Affiliated Publications, which publishes the *Boston Globe*, has scored brilliantly on its investment in the rapidly growing cellular telephone business.

What has happened to the newspapers is what any economic textbook would have predicted. For years, pub-

The erosion of a monopoly

Household penetration by daily newspapers—newspaper circulation divided by households—has been declining steadily. The point at which penetration is considered so low that it's not worth advertising is not clear, but increasingly advertisers are seeking alternative media.



* Including the Wall Street Journal and USA Today † Projection

Publisher, Sales & Marketing Management, Lynch, Jones & Ryan

lishers of papers found they could push up prices without resistance. Local merchants had little choice but to pay; the newspapers delivered daily the audience the merchants needed. Costs, too, fell, thanks to automation.

The result of all this was a businessman's dream come true. The newspapers' earnings grew much faster than revenues. The newspaper that nobody wanted in the 1960s became a hot growth property in the 1970s. Clever investors like Warren Buffett saw what was happening early on; a division of Buffett's Berkshire Hathaway bought the *Buffalo News* in 1977 for just $35 million. Today it is worth $300 million to $500 million. Buffett began buying into the Washington Post Co. in the early 1970s; Berkshire Hathaway now owns 13% of the company, worth some $350 million.

But those were yesteryear's stories.

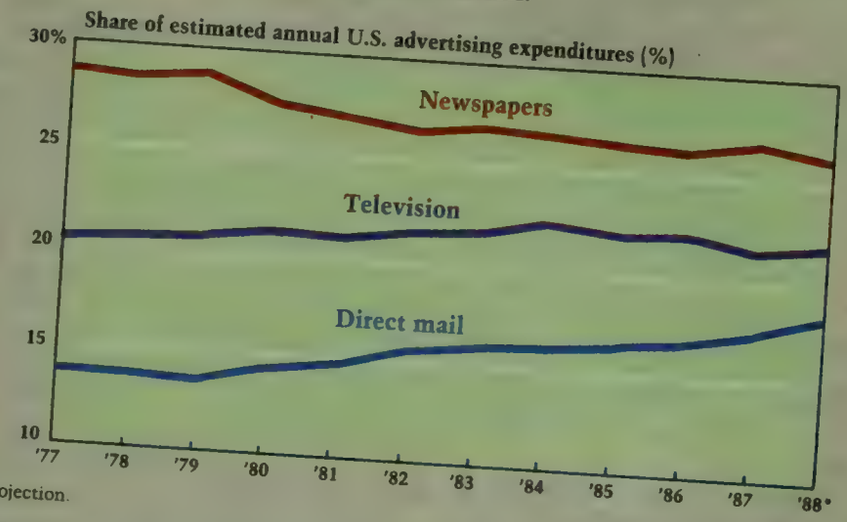
Today the great leaps forward from automation in the pressroom and the newsroom are largely behind the industry. Costs are unlikely to decline much further.

But even worse news is on the revenue side. As profit margins grew and grew, competitors began to proliferate. Once thought to be virtually competition-proof, the newspapers turned out not to be. Today weekly papers, catalogs and other forms of direct mail advertising, television and other media all compete for audience and for the pool of advertising dollars. As a result, most newspapers' profits will grow no faster than revenues. Newspapers are still a good business; they are no longer a license to print money.

Why have rival advertising media been so successful in competing? The basic problem, from which most of the newspaper industry's other problems flow, is circulation. Daily circulation has been virtually flat since 1970, while the number of households has continued to grow. As a result, newspapers have tended to become less efficient means of advertising to a given community; too many households fail to take the paper.

Rising revenue, falling share

Newspaper advertising revenues (not shown) have almost tripled since 1977, to over $30 billion last year, but advertising as a whole has grown faster still, to $118 billion. The result: Newspapers' share of the pie has fallen from 28.7% to 26.3%—the equivalent of nearly $3 billion in revenues gone elsewhere. Meanwhile, television advertising (including cable) has gained share. Most threatening of all, expenditures on catalogs and other direct mail have surged from under 14% in 1977 to almost 18% last year, or over $21 billion.



* Projection.

Source: McCann-Erickson, Inc.

In 1970 circulation stood at 62.1 million daily, according to *Editor & Publisher*. In 1988, estimates John Morton, it was 63.1 million. In the intervening years the number of U.S. households increased by 44%.

Excluding the *Wall Street Journal* and *USA Today*—both national newspapers—the household penetration numbers have dropped steadily *(see chart, p. 82)*. In 1970 95 daily papers were circulated on average for every 100 households. By 1988 the number had dropped to an average of 65 dailies for every 100 homes.

Even where circulations are rising—primarily in the Sunbelt—they aren't keeping up with household growth. In Florida, the circulation of the *St. Petersburg Times* increased 11% from 1983 to 1988, but penetration slid from 76% to 59%, according to the Audit Bureau of Circulations. The *Los Angeles Times* added almost 78,000 new readers—up 7%—to over 1.1 million from year to year. Its penetration dropped more than 20%.

Says Gannett President and Chief Executive John Curley: "As penetration has slipped, a lot of advertisers are trying to cover their bets by making sure they have enough money to run in different places."

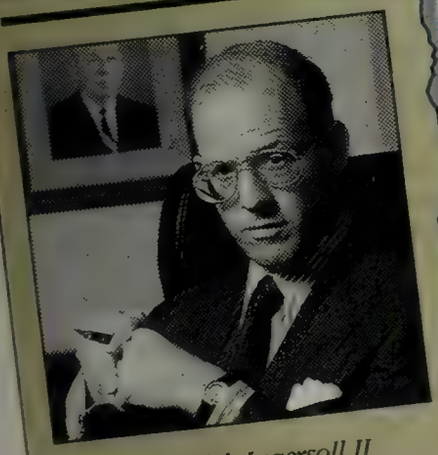
What makes household penetration critical is that declining penetration makes newspapers less attractive to advertisers over time. Their monopoly still exists, but it is increasingly less important—and therefore less valuable—as advertisers turn to other media to communicate their message.

Yet even as the industry's ad linage growth rate is flattening, and in some cases declining, publishers continue to announce official price increases.

But making the prices stick is getting harder. The publisher who grew accustomed to ignoring circulation weakness and increasing advertising prices anyway, must now confront a harsher future environment in which price increases are less likely than price cuts. The *Miami Herald* recently saw its classified advertising linage climb 42% when it cut its rates.

Reflecting the new economic realities, several metropolitan newspapers—including the *New York Times*, the *Miami Herald* and the *Boston Globe*—have begun to tout programs that offer lower prices to high-volume advertisers. "They say, 'We're offering special deals to our special customers, but we're not abandoning our rate card,' " says S.G. Warburg's publish-

Dale Schierholt/Ingersoll Papers



Publisher Ralph Ingersoll II
"Direct mail is the most significant threat."

ing analyst Bilal Said. "Well, that's the way it starts. If the rate card is seriously compromised, the great theory of monopoly franchises and being able to price any way they want is out the door."

Newspapers still account for the largest share of advertising expenditures, but their share is declining *(see chart, p. 83)*. Television—particularly local television—is a strong second, with a growing share.

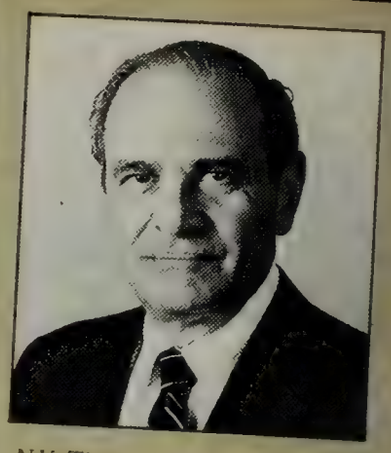
The fastest-growing major segment is direct mail—catalogs and other fliers delivered by mail. By McCann-Erickson's estimates, direct mail now accounts for almost 18% of the $118.3 billion spent on advertising last year, or over $21 billion. In 1979 it was a mere 13.6%, less than $7 billion.

A sharp increase in mail rates hurt direct mail's unit growth last year, but it is likely to continue growing. Why? Because advertisers are better able to tightly target prospects—everyone within certain zip codes, say—instead of every reader of a paper.

"The advertiser's age-old anxiety is that half of every dollar is wasted, but he can't figure out which half," explains Ralph Ingersoll II, chairman of the Ingersoll Publications Co. "Direct mail is helping him figure out which half, or at least leading him to believe he's becoming more efficient. I would say that direct mail is the most significant threat [to the industry]."

Ingersoll has been something of a phenomenon in newspaper publishing. Just 42, he has built primarily through acquisitions a chain of over 200 newspapers, and his chain has been expanding into Europe. Most of Ingersoll's papers are weeklies, delivered free of charge to everyone in their community. These weeklies are typically strong on local community news—high school sports, the local police blotter—the kind of coverage many big-city dailies' editors consider beneath them. But while the big dailies' penetration drops, the readership of weekly newspapers—both paid and free—has more than kept pace with the growth in households. The weeklies have increased their penetration from 43% in 1970 to 56% in 1988. Like direct mail, community weeklies can more precisely target potential customers at a lower cost than metropolitan dailies.

Explains Ingersoll: "If you're an automobile dealer on Long Island, you can pay, say, $14,000 for a tabloid page in *Newsday*, most of which is wasted because the people that get it will never buy a car in your neck of the woods, or you can go into one of the weekender publications and pay a few hundred dollars and reach just the people likely to come over to your shop."



N.Y. Times Co.'s Sulzberger
"They have to come back if they want that market."

The New York Times

Ingersoll delivers papers into over 1 million homes on Long Island; *Newsday*'s Long Island circulation is around 500,000. Yet no Ingersoll paper on Long Island is larger than 15,000. Similarly, 44 Ingersoll papers go to 900,000 homes in and around St. Louis. The *St. Louis Post-Dispatch* goes to around 375,000. Like a guerrilla general, Ingersoll surrounds his heavily armed competitors and snipes away at them rather than confronting them with a rival newspaper.

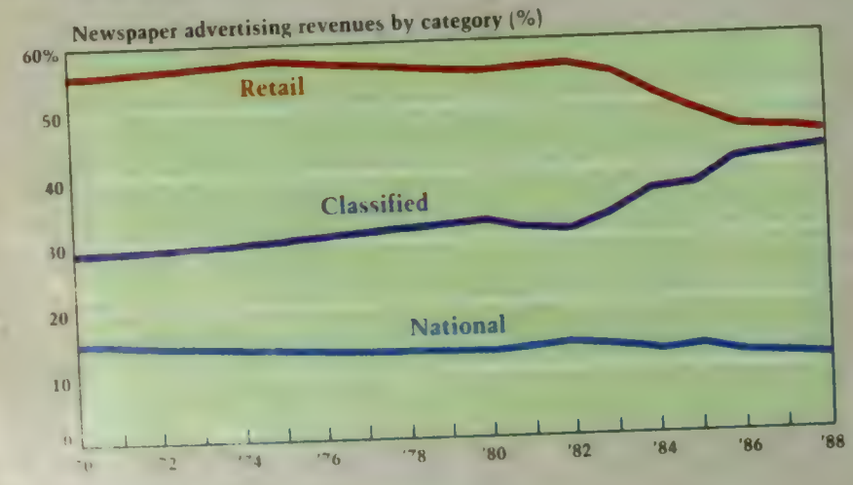
Another form of alternative media to newspapers is, ironically, carried by the newspapers themselves. These are the preprint inserts—fliers printed by the advertiser and inserted into the newspaper. Revenues from preprint insert advertising have grown at over 15% compounded since 1980, reaching $5.4 billion in 1987, most of it retail advertising.

Is this healthy for the newspapers? Yes and no. Profit margins on preprints are enormous, since costs are low, but a dollar spent on preprint displaces several dollars that would otherwise have been spent on advertising in the paper. So while the profit *percentage* on preprints is higher, the profit in dollars is far lower.

The publishers are not idly watching their penetration ratios drop. Well aware that over half of all Americans now say they get their news primarily from television, Gannett started *USA Today*. Television news on paper, its stories are colorful, easy to read and brief. There is disagreement about whether the paper will be a good investment for Gannett, but there is little argument that it has forced other papers to become more reader-

Ominous strength?

In years past, classified advertising—principally employment, real estate and automotive—has accounted for less than a third of newspapers' ad revenues. Well over half came from retail ads. In 1983, however, classified advertising's share of revenues began to climb rapidly. Classified ads are more profitable and good for margins. But they are also much more cyclical. Come another recession, the cutback in classified business is likely to hurt the bottom line as much as it has helped since 1983.



Learning experience

The bright spot in an otherwise cloudy newspaper publishing industry is Sunday newspapers. There are nearly 840 Sunday papers printed in the U.S., up from 639 in 1975, as publishers have responded to demands for a Sunday product from advertisers and readers alike. There are still only half as many Sunday papers as dailies. But the Sunday papers' combined circulation now exceeds that of the daily editions.

Advertising linage, too, is growing apace: On average, the Sunday papers' total pages have doubled in the last ten years. "I can't begin to tell you how many dailies in this country are completely carried by their Sunday papers," says Ralph Ingersoll II, chairman of Ingersoll Publications Co. "Coast to coast, the Sundays are over 40% of total revenues on average, and in some markets it's over 50%."

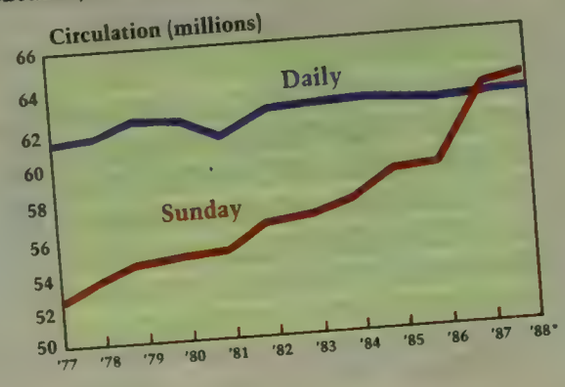
Why the boom in Sunday reading as against the falloff in the penetration of dailies? A 1987 readership survey conducted by the Newspaper Advertising Bureau found that over half of the 18-to-24-year-old respondents said they'd willingly replace their daily with their Sunday paper. Notes newspaper consultant Christine Urban, in many markets about 25% of Sunday-only readers formerly read papers seven days a week.

The trend is probably yet another by-product of the TV age. People tend to get their spot news from the tube, but the tube leaves unsatisfied the need for more detailed information. "Sunday editions contain primarily features and magazine-type stories," says Arthur Gruen of Wilkofsky Gruen, a consulting firm. "TV has whetted the appetite for that type of softer material."

As publishers fight to halt the dailies' falling penetration rates, look for daily papers to become more like their Sunday cousins. The much-emulated *USA Today* is a pioneer in this direction.—C.T.

Good news, bad news

The circulation of Sunday newspapers has grown steadily, while that of daily papers has remained relatively flat. In 1987, Sunday papers overtook the dailies. One reason: Softer features, making them more fun to read.



* Projection.

Sources: Editor & Publisher; Lynch, Jones & Ryan

friendly. Even the *New York Times* is now installing color presses.

To bring readers back to the fold, newspapers are trying to change their content as well as their look. After years of telling readers what they should read and shoving the fare down readers' throats, take it or leave it, editors are trying to win back readers with softer features and focused sections that readers and advertisers want. They are becoming marketing people, not just arbiters of what is important and what is not. This new emphasis on giving the reader what he wants is one big reason for the growth in Sunday papers *(see box, above)*.

In southern California the daily *Orange County Register* has taken local coverage very seriously, as if it were a weekly. It has succeeded in setting Orange County apart as a community distinctively different from Los Angeles. Its archrival, the *Los Angeles Times*, has been slow to make the same differentiation. As a result, the *Orange County Register* has increased both circulation and penetration.

In recent years the newspapers have gotten a nice profit boost from gains in classified advertising *(see chart, opposite)*. Most classified ads come from employment, real estate and automotive ads. Because there are minimal selling costs to generate that advertising, profit margins are high. S.G. Warburg's Bilal Said guesses that for the typical U.S. daily, classifieds account for over 50% of operating profits.

The bad news is that classified ads are the first to be cut back when the economy turns down. The dependence on classifieds makes the newspaper industry more vulnerable to economic fluctuations, and therefore more cyclical than it was before.

If all this weren't cause enough for worry, the takeover flood on Wall Street is making unpleasant waves in newspapers. Department store chains that are leveraged to the eyeballs must count their advertising dollars more carefully than ones that are not. It is no accident that after last year's rash of takeovers, buyouts and sell-offs—Campeau Corp.'s takeover of Federated Department Stores and the resale of several of its divisions, Montgomery Ward's leveraged buyout, Ames' acquisition of Zayre Corp., to name a few—the debt levels and uncertainties caused retailers to advertise cautiously. Gannett, the *New York Times*, the *Boston Globe* and others reported declines in retail advertising linage. The *Los Angeles Times* publisher, Tom Johnson, says mergers cost the paper over $6 million in 1988 and will cost it $12 million in 1989.

Nevertheless, the assumption among publishers is that, in time, things will return to normal. The New York Times Co.'s chief executive, Arthur O. Sulzberger, argues that the very proliferation of alternate media actually works to the advantage of the daily newspaper.

"I think that we are once again becoming the common buy, the big buy, the place where you can get the audience that doesn't have that fractionalization [among TV, cable, weeklies, direct mail, preprints, etc.]," says Sulzberger. Of newspaper advertisers who have cut back, Sulzberger says: "They have to come back if they want to have that broad market appeal."

That is Sulzberger, industry statesman and chairman of the American Newspaper Publishers Association, speaking. But then he adds a realistic assessment of the situation: "The heyday of those volumes of advertising that we used to have two or three years ago, when we just literally could not handle the volume of advertising and had to leave advertising out of the paper, is over. It will be a long period before we have that wonderful problem again."

Ah, competition. It is a wondrous but fearsome force. ■

Examine closely the back of a dollar bill. It pictures how the U.S. framers valued commerce, later to be called capitalism, as a necessary condition for democracy.

A REVOLUTION RESTATED

By Michael Novak

Most of us are taught in college to be proud of American democracy but a little ashamed of being capitalist—as if the latter signified vulgar, selfish and materialistic.

The American founders saw things differently. They were proud to announce a new "commercial republic." Indeed, a large part of their originality lay in basing their "new order" upon the virtues commerce teaches, especially those that lead to economic growth. In his farewell address, George Washington dared to hope that all nations of the world would repair to this new order.

Two hundred years later, Ronald Reagan and George Bush have "rediscovered" this original design. In his farewell address, Ronald Reagan said that, no, there was not quite a "Reagan Revolution," it was only "the Great Rediscovery" of principles held by our forefathers. And George Bush, on Jan. 20, saying that "a world refreshed by freedom seems reborn," highlighted one by one the three novel components in the design of the founders—democracy, free markets and the moral/cultural order.

Note that these three systems joined as one: democracy, free markets, a free moral order. All interdependent. You can see a visual rendering of this new order on the Great Seal of the U.S. (on the green side of the dollar bill), designed over many years to get the symbolism exactly right. There below the central figure—a three-angled pyramid—is the bold inscription *Novus Ordo Seclorum* (the new order of the ages).

For the framers, the pyramid called to mind Egypt. As the ancient Israelites had gone out from the fleshpots of Egypt to wander in the wilderness in search of the New Jerusalem, to build "a shining city on the hill," so the Americans also had gone out from Europe on "an errand into the wilderness," across the oceans, to build a new community.

But how? All other republican experiments in history had failed; the "republican idea" had fallen into opprobrium. Only a bold originality gave fresh promise of success, and James Madison in *Federalist 14* gloried in the new design: "[The Americans] have accomplished a revolution which has no . . . model on the face of the globe."

Look again at the symbolic pyramid. In the framers' view, the political system constituted only one small corner of the enlarged orbit of society—imagine it at the bottom left. Then visualize the economic system over on the right, not under the political order but at its side. Thus, the base of the new order is "political economy," a concept Adam Smith made popular in his *Inquiry into the Nature and the Causes of the Wealth of Nations* (1776).

Between 1776 and 1787 the framers were reading Adam Smith closely; Jefferson called *The Wealth of Nations* "the best book extant." The framers separated the state from power over the economic system, as they also separated the state from power over religion, the press and intellectual inquiry ("Congress shall make no law . . ."). They hoped that commerce would teach habits of realism, prudence and creativity; that its growth would defeat envy (the curse that had destroyed earlier republics); and that it would set interest against interest, counter ambition with ambition, and thus provide checks and balances against any threatening "tyranny of the majority."

More than other architects of new orders (e.g., the French Revolution in 1789, the Russian in 1917), the U.S. framers valued commerce as a necessary condition for democracy. They prized its prudence, sense of others and inventiveness.

At the topmost peak of the pyramid, not only separate from the state but in important ways above it, the designers set the symbol of the radiant eye of reason, conscience, candor, even Providence. (This last suggestion is strengthened by the inscription immediately over it: *Annuit Coeptis*—He smiles on our undertakings.) The conscience of the citizen lies in key respects above the state, beyond its reach.

In short, the framers designed their three-angled *Novus Ordo* to liberate political, economic and spiritual energies.

The Inaugural Address of George Bush speaks of old ideas that "are new again because they're not old, they are timeless: duty, sacrifice, commitment and a patriotism that finds its expression in taking part and pitching in."

Thus, far from standing for selfishness and greed, commerce—now called capitalism—promoted civic virtue. Until the final draft, "virtue" stood where the phrase *Novus Ordo Seclorum* now stands.

"America," Bush said, "is never wholly herself unless she is engaged in high moral principle." The reason for this is practical. Unless a people governs its internal appetites and passions, it is not fit for self-government, and the republican experiment cannot succeed.

An extraordinary design, more attractive to the world now than two centuries ago. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. Among his recent books are Taking Glasnost Seriously *and* Free Persons and the Common Good

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Reuben Richards took Inspiration Resources off the critical list. Does he have the vision to get the company growing again?

Improvised resources?

By Ruth Simon

INSPIRATION RESOURCES Corp. Chairman Reuben Richards keeps a bent and scaly rod of scrap copper on the credenza behind his desk. He pulls it out during meetings, he says, "to remind the operating guys of how bad things used to get."

Copper isn't much of a problem for Richards these days. He sold the company's biggest copper holding, Inspiration Consolidated Copper, to Cyprus Minerals last summer. Nor is Richards worrying any longer about a flood of red ink. His nearly six-year-old, $1.4 billion (sales) agribusiness and mining company should be modestly profitable this year, after cumulative net losses of over $400 million since its creation in 1983.

Inspiration is one of about a half-dozen companies that once got much of their revenues from copper, a business devastated by a glut in inventories in the early Eighties. Some, like Phelps Dodge, survived by becoming low-cost producers. Others, like Inspiration, cut costs but then decided to focus on other areas.

Inspiration Resources is something of a misnomer. It has resources, to be sure, but it's hardly inspired. "Improvised" is more like it, for reasons that trace back to Minorco, the overseas investment arm of South Africa's Oppenheimer family. Minorco had bought into U.S. and Canadian mining, energy and agriculture interests at their cyclical peaks in the late 1970s. But then came years of losses as the mining and the farm economies collapsed. In response, Minorco reorganized its holdings into a new company—Inspiration—and through a complex stock swap involving various Minorco investment interests, created a public market for some 44% of Inspiration's stock. The remaining 56% continues to be held by Minorco.

The move was clearly good for Minorco, which in effect gained access to U.S. capital markets through Inspiration. But as a going concern in its own right, Inspiration was hardly attractive. It was "a dog's breakfast," Richards admits. "We began with good liabilities and bad assets."

That weak start still haunts Richards today. At 8⅛ a share, the NYSE-listed stock is up 76% from last year's low but still trades at 57% below its initial high of 18⅞ a share in 1983.

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Says Richards, a cigar-smoking former banker: "I can't say I'm happy with the thrust we have now."

Small wonder. Inspiration remains heavily dependent on highly cyclical industries. About two-thirds of its revenues come from the distribution of fertilizer, agricultural chemicals and seeds, a business where margins are thin and profits can be heavily influenced by federal farm policy. Much of the balance comes from mining, chiefly zinc, nickel and its remaining copper holdings. Like agriculture, mining suffered a major shakeout in the early Eighties.

A former executive vice president at Citibank, Richards, 59, has made the best of a bad situation. He has mothballed unprofitable mines and taken a knife to overhead, firing almost 90% of the company's Canadian management team. He has cut the cost of U.S. mining operations by one-third and cut debt by two-thirds, largely through selling off various mining and energy operations. The cut in long-term debt—it's now down to around $160 million—eliminated $30 million in interest costs.

Inspiration has also diversified into precious metals. One year ago the company launched a gold mining joint venture with Minorco, and it has also gotten heavily into Canadian nickel mining. The latter could add about $40 million to profits this year at current nickel prices. To strengthen its farm and fertilizer operations, Inspiration also acquired from Sohio 118 retail farm service centers across the Midwest. Finally, to capitalize on the company's accumulating trove of tax-loss carryforwards, Richards paid $98 million for Merrill Lynch's leasing business. That purchase paid for itself in the first year.

Thomas Iannuzzi

Inspiration's Richards and Joyce
A dog's breakfast forever?

As a result of these moves, Inspiration is expected to report operating earnings of about $36 million, or 55 cents per share, for 1988. Increased farm plantings spurred by last summer's drought should help lift operating earnings to $79 million, or $1.20 a share, in 1989, according to Vahid Fathi of Prescott Ball & Turben.

The question now is where Richards will take the company next. One subsidiary, Terra International, is the U.S.' second-largest distributor of fertilizers, seeds and agricultural chemicals. "We're interested in expanding Terra's private-label business," says Executive Vice President Burton Joyce. Inspiration's metallurgists are also looking for new uses for metals and minerals such as spodumene, now used in Corning Ware. Another opportunity could develop if Minorco wins its hostile takeover bid for Consolidated Gold Fields, which has substantial North American mining interests. It's too early to tell, but some or all of these could then be folded into Inspiration to strengthen its precious metals business.

For all that, Inspiration is a company struggling to grow but not yet certain in what direction. Until Richards can articulate a clearer vision of what he wants Inspiration to be—and then convincingly pursue it—investors may be wise to keep thinking of it as Improvised Resources. ■

GE.

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Competitors

Meet the entrepreneur who moved background music into the foreground.

Mike Malone and the slumbering giant

By Marc Beauchamp

At Los Angeles' trendy Spago restaurant, diners munch duck sausage pizza to the vocals of Sting and INXS. At Victoria's Secret outlets in Columbus, Ohio, women wiggle into slightly naughty lingerie to Bach's Brandenburg Concertos. At the Gotham Bar & Grill in Lower Manhattan, warm chocolate cake is served to jazz by Pat Metheney.

Welcome to the world of foreground music, and to a nice little business in the making. The business is AEI Music Network Inc., Seattle-based and privately held by its founder and president, Michael Malone, 44. AEI provides taped or satellite-relayed music to Spago, Victoria's Secret, Gotham Bar & Grill and some 55,000 other businesses nationwide. These range from Gap stores to Wendy's fast-food outlets, from Casual Corner shops to Bennigan's restaurants. Every day some 24 million people hear the music AEI supplies. The genres range from Top 40 hits and hard rock to jazz, classical and easy-listening "New Age" music. Passengers on American Airlines and 16 other U.S. and foreign carriers can tune in to AEI's music, as can sailors in their bunks aboard the U.S. Navy's Poseidon-class nuclear submarines.

AEI Music Network founder Michael Malone Ken Rudolph

Spotting, and institutionalizing, the trend that Muzak missed.

In 1970 Malone, then a 26-year-old securities analyst, started AEI. The undisputed giant of background music at the time was Muzak, founded in 1936. But the giant was sleeping. Malone was wide awake. While Muzak franchisees continued to pipe Muzak's muted, homogenized instrumental versions of classics like "Sentimental Journey" and the Beatles' "Penny Lane" into elevators, doctors' offices, factories and public spaces, hip young retailers were putting stereo systems in their stores and restaurants and actively using music to help create the commercial environments they wanted. Background music was moving into the foreground.

Malone spotted the trend and institutionalized it. He has worked out licensing agreements and royalty fees with record companies, music publishers, the American Society of Composers, Authors & Publishers, and with Broadcast Music, Inc. In return, Malone gets the right to create programs using recording artists' original materials and then leases the programs to his customers on a subscription basis. Today most AEI subscribers receive their music in the form of four-hour-long tapes, with a new program arriving every month or so. The basic tape service costs from $40 to $75 every month.

While slumbering Muzak stayed with its traditional toned-down background accounts, AEI programmed its tapes to be heard, and actively sought accounts at fast-growing retailers and restaurant chains like the Limited, Gap and TGI Friday's, whose managers understood that music could do more than merely replace silence. This year AEI will gross an estimated $35 million; pretax earnings from operations and before depreciation consistently exceed 10% of revenues.

Malone today leads a life you might describe as *vivace ma non troppo*. Energetic and a self-described "lifestyle kind of guy," he has become an antique car collector of some renown, and is the majority owner of Seattle's

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magnificently restored Sorrento Hotel, just east of downtown. He is also a partner in George's at the Cove, a popular restaurant in La Jolla, Calif. Malone owns around 75% of AEI and says he has no immediate plans to take his company public.

Does music really help sell clothes and hamburgers? "It's kind of like trade shows," says Robert Spekman, a University of Southern California marketing professor. "No one knows if they work, but you've got to be there. Who wants to take music out to do a test?" Not Scott Thompson, 38, who runs his family's apparel store, Thompsons', in Redding, Calif. Says Thompson: "The store seems dead if you don't have any music on."

Kick a giant and it sometimes kicks back, as Muzak is now doing. Muzak has suffered an unstable past. It was sold by Wrather Corp. in 1972 to Teleprompter, which sold it in 1981 to Westinghouse, which put it on the block again in 1986. Malone tried to buy Muzak then. But he has always had a healthy fear of debt. As a result, he lost Muzak, for a rumored $45 million, to Marshall Field V, who folded it into his Chicago-based Field Corp. and moved its headquarters from New York to Seattle after he acquired Yesco, Inc., another Seattle-based foreground music company started by one of Malone's former associates.

With Muzak's new ownership has come new management determined to regain some of the market lost to Malone. To run Muzak, Field picked John Jester, 47, a longtime telephone company executive who worked at Contel and U.S. West. Muzak has also spent money updating its music library. Muzak's 180 franchisees nationwide (plus 23 more overseas) now offer their own original artists' foreground programming to shops and restaurants. Insists James Harrison, Muzak's senior vice president of sales and marketing: "We're not just 'The 1,001 Strings do the Beatles' anymore."

Malone, too, has brought in new managers—notably AEI's new executive vice president of distribution and operations, Barry Horn, a 19-year IBM veteran who most recently headed IBM's personal computer marketing. And Malone is now programming background music like Muzak's.

Malone's battle with Muzak has moved to the skies, and is likely to go well beyond music. Last summer Muzak began broadcasting its fare to clients by bouncing the signals off satellites directly to dishes on customers' rooftops. Malone responded last fall when he paid an estimated $8 million (mostly borrowed) to buy the Seeburg Music Satellite Network, a Raleigh, N.C.-based subsidiary of Capitol Broadcasting Co. Once known for making jukeboxes, Seeburg pioneered the use of satellites to broadcast music programs nationwide.

Direct satellite broadcasting makes good sense for AEI for several reasons. Shipping tapes around the country by Federal Express is expensive. Some of AEI's programming is delivered by satellite to an earthstation and then on to the customer by an FM sideband signal. This is cheaper than tapes, but the music's fidelity suffers.

Distribution by direct broadcast satellite solves the transportation and fidelity problems nicely. With the latest generation of satellites, AEI's signals can be beamed directly to customers using dishes less than 3 feet across.

"The goal," says Malone, "is to turn a $50- or $75-a-month music account into a $500 account with ancillary services."

More important, satellite technology opens up a whole new spectrum of services. With dishes in place on his customers' roofs, Malone can send them not only music but other kinds of data such as video, voice and facsimile. AEI, for example, will soon begin beaming weekly videotaped movie trailers to some 500 United Artists Theatre Circuit theaters. Each theater will screen the trailers in its lobby, so that patrons can watch as they buy their soft drinks and popcorn. Malone says outfits like Burger King could use a similar video system for in-store training. Other customers could use such a satellite link to send facsimile or other data to headquarters.

"The goal," says Malone, "is to use the technology already in place to turn a $50- or $75-a-month music account into a $500 account with ancillary services."

Muzak will be no pushover. It has 150,000 accounts, nearly three times as many as AEI. (A third, but minor, competitor in foreground music is 3M Co.'s 3M Sound Products.) Muzak's music is now heard by 80 million people a day in the U.S. and 13 foreign countries.

The potential market is huge. Observes Malone: "We have 55,000 accounts, Muzak has 150,000. That's ridiculously small, given the number of businesses out there." If energy and ambition count in the race, Malone looks like the jockey to bet. ■

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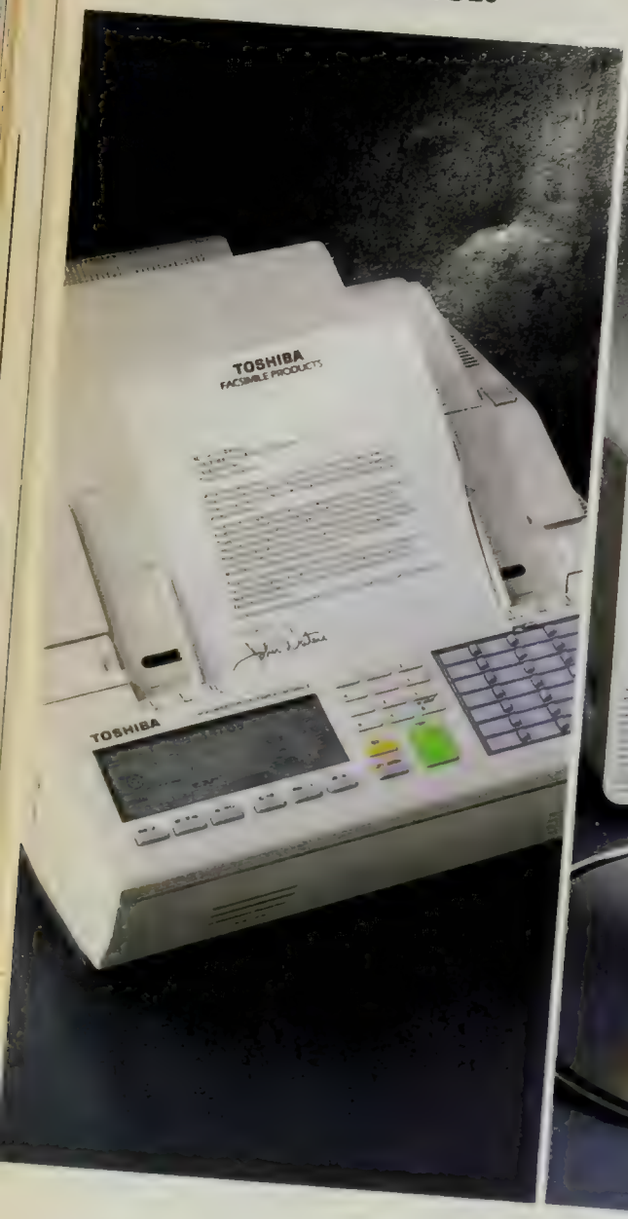

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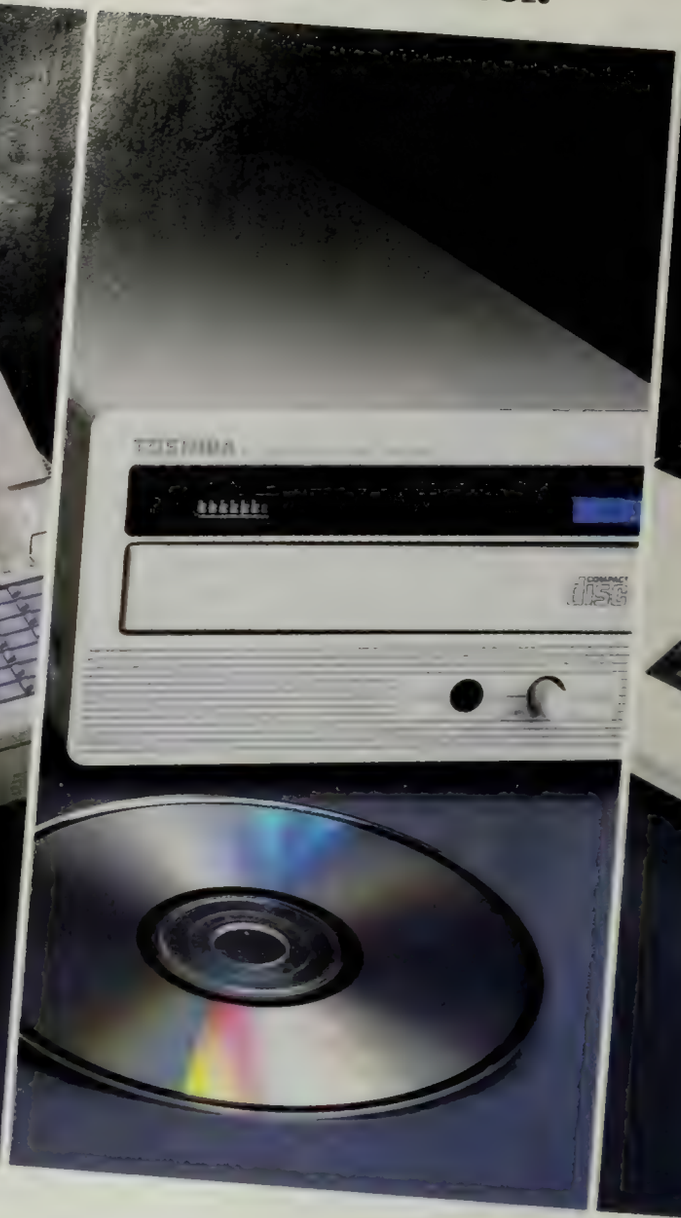

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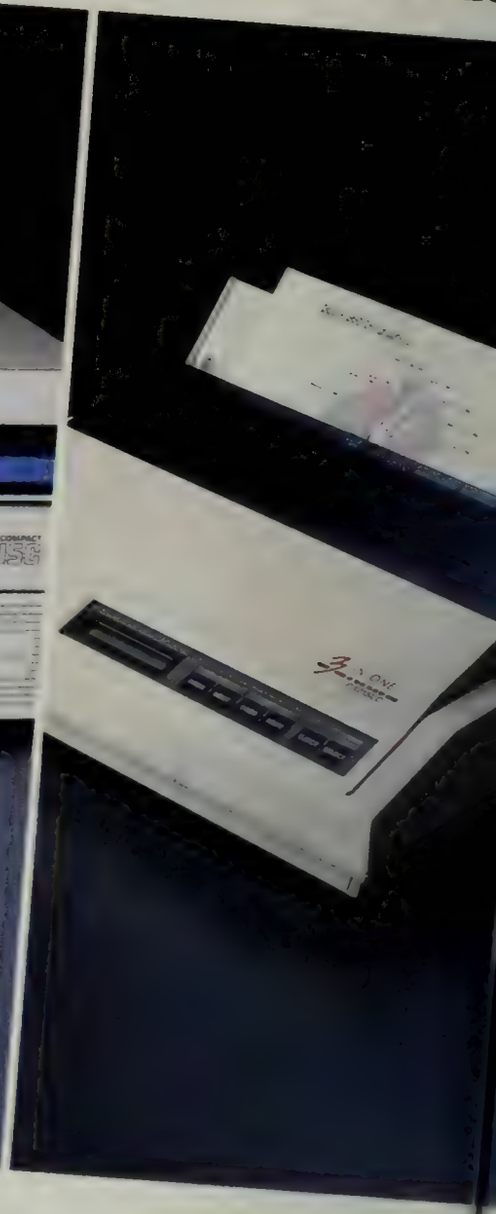

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Dealmakers

Mark Andrews doesn't know a lot about geology, but he's clever at finding money and limiting risks—pivotal talents in buying oil and gas reserves at today's prices.

Petro-vulture

By John R. Hayes

MARK ANDREWS is a petro-vulture. On behalf of his company, American Exploration Co., Andrews buys oil and gas reserves at distress prices and repackages them as private and public limited partnerships. As general partner, American buys 10% of the partnership for itself, and earns its revenues from partnership income and management fees.

Andrews, now 38, says he has looked at 1,500 properties, bid on 165 and spent $500 million to buy 26. Last year he closed his biggest deal yet, $120 million for natural gas in West Texas' Sawyer Field from Enron Oil & Gas. That brings American's reserves of oil and gas—owned or managed for partners—to the equivalent of 88 million barrels of oil.

American operates 1,900 wells producing 7,500 barrels of oil and 100 million cubic feet of natural gas a day. Revenues for 1988 should come in at around $40 million. That's small change in the oil world, but a fairly impressive performance from a standing start at the beginning of the industry's toughest decade. Andrews says he hopes to buy another $200 million worth of reserves this year.

In reality, Andrews isn't starting entirely from scratch. His father, Mark Sr., is a venerable Houston lawyer who was Assistant Secretary of the Navy under Truman and has written a book on Shakespeare's *Merchant of Venice*; at 85, he still manages an oil company he founded in 1951.

The younger Andrews, schooled at St. Paul's, Harvard College and Harvard Business School, learned early on that what an oilman knows about Wall Street is often more valuable than what he knows about oil. After five years at the Houston brokerage firm Rotan Mosle (now a subsidiary of PaineWebber), Andrews set out on his own in 1980 with $660,000 in seed capital raised from friends and contacts from Rotan. Oil was just peaking, but Andrews figured a drop in prices would force many companies to sell cheap, and he approached institutions for financing.

"The world didn't need or want another independent oil company," Andrews recalls. "But when New York Life or Minnesota Mutual said, 'Hey, the oil industry is in disarray; there must be some bargains out there,' the world did want and need a way to implement their hunches."

It took Andrews three years to convince institutional partners there were opportunities in disaster. The delay, disappointing at the time, proved a blessing in disguise. "If everybody had just lined up and thrown money our way," he says, "we'd have bought a bunch of stuff at 1980 prices, and we may well not have survived."

Even so, Andrews did not cover himself in glory on this first deal. The initial financing was a $21 million private partnership with five insurance companies. (American itself kicked in $2.1 million, raised from a $5 million preferred stock offering.) Andrews used nearly $7 million of that to buy about 500,000 barrels of oil in central Texas from Petropool, Inc., a small Texas exploration company. The price, which worked out to $13 a barrel for oil still in the ground, looked cheap at the time. But when you're buying distressed merchandise as a long-term investment, timing is everything. The price continued to drop. Last year the average price American paid for a barrel of oil—or its equivalent in natural gas—was $4.31, up from $3.91 in 1987.

Andrews thinks his partners in that first deal will eventually recover their capital, but won't earn much of a return. Three of five partners decided to stay with him, however, and average down. Since then, American has raised $222 million from 19 institutions in five private offerings. "If anything," says Michel Benoit, vice president at Phoenix Mutual Life Insurance, "now would be the best time to invest."

One early partner, New York Life Insurance Co., went on to buy 26% of the company's 21 million shares. Four other institutions together own 12%. Andrews, who shuttles between offices in Houston and New York, owns 8%. The firm went public in 1983 by buying a publicly traded oil and gas company

Diane Rubinger Picture Group

American Exploration Chairman Mark Andrews
Finding opportunities in disaster.

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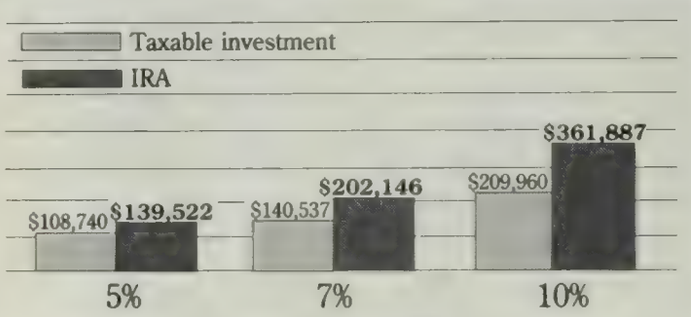

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and merging American Exploration into it. About 8 million shares are available on the American Stock Exchange. Recent price: 2½, down from a high of 7 in early 1984.

New York Life is especially pleased with its oil connection. In 1985 it decided to package retail oil and gas partnerships that its agents could sell to individual investors. It asked American's help in designing and managing the product—and, of course, procuring the reserves. Today American Exploration and New York Life act as cogeneral partners of $80 million in public partnerships. Robert Stanger, an adviser on limited partnerships, has rated the terms of the public offerings favorably. But it's too early to evaluate performance; their returns will rise or fall (or disappear) with the price of oil.

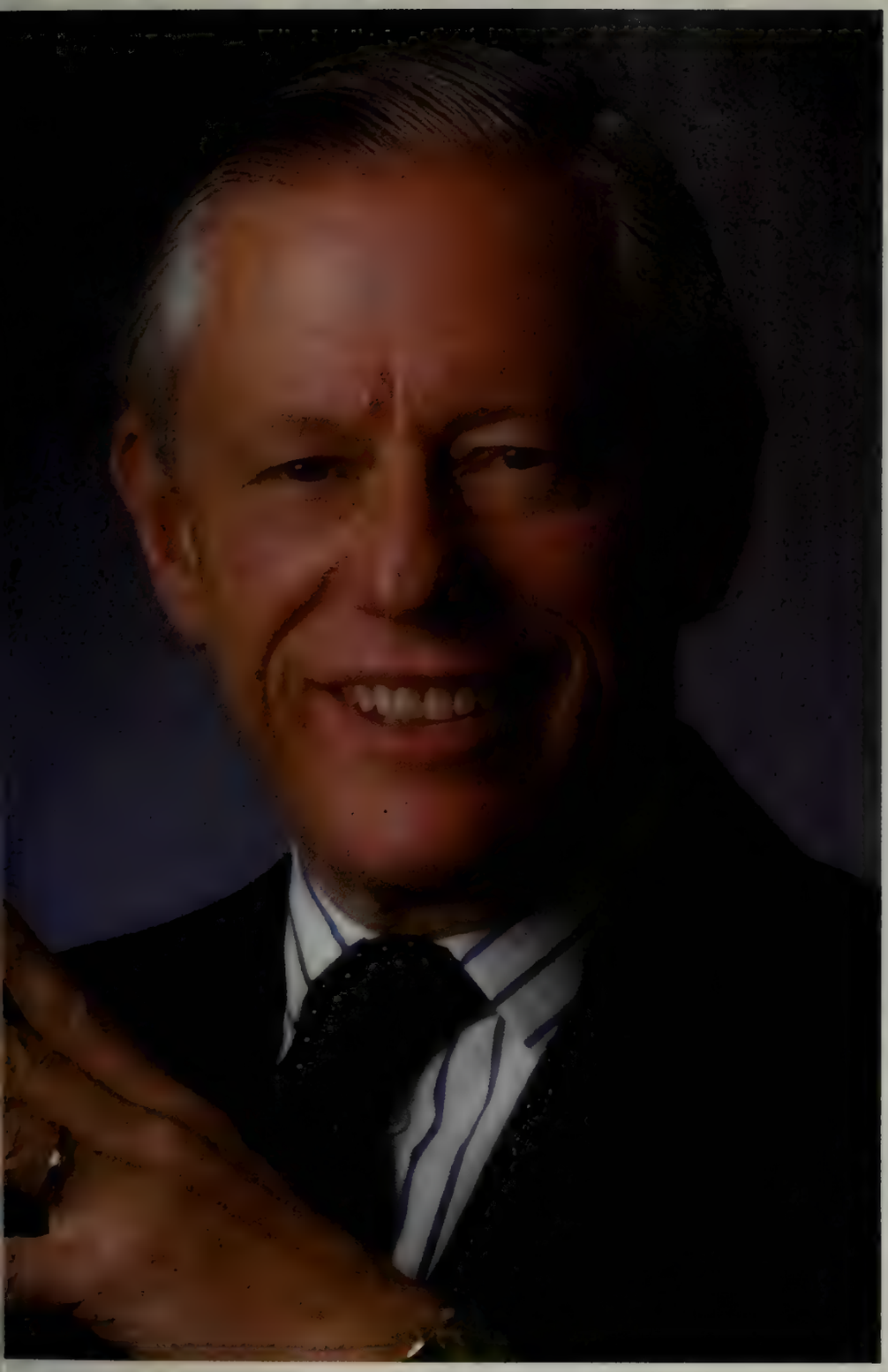
"If everybody had thrown money our way, we'd have bought a bunch of stuff at 1980 prices, and we may well not have survived."

Through New York Life, Andrews found a way not only to raise large quantities of money but to reduce his risks as well. In 1987 New York Life offered American a $100 million nonrecourse bridge loan—increased to $175 million last year—to buy and warehouse reserves intended for the partnerships. The credit line lets American move fast on a deal. In the Enron purchase, for example, American notified New York Life on Oct. 7 that it wanted to buy the property. On Oct. 31 New York Life approved the purchase, and an agreement to buy, with financing in place, was signed that afternoon.

The best part of the loan is the nonrecourse provision: If something goes wrong, the $120 million is secured solely by the property. New York Life, not American, bears the risk.

Andrews has good reason to fear debt. He recalls pitching his first oil and gas partnership in 1982. His slide show featured 20 then-well-known energy companies, all of whose market values had plunged and whose debt loads had jumped. "We dusted off that presentation a month ago," says Andrews. "Of the 20 companies, 12 are gone. They're not smaller or in bad shape. They're just gone."

Andrews is determined that American Exploration will not become a statistic. But a force beyond his control—the price of oil—will have the final say on that. ■



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Who wouldn't have trusted George Bissell? He had a respected name, excellent connections and a million-dollar mansion.

Gentleman scamster

By Richard L. Stern

At 62, George Bissell was a member in good standing of Palm Beach's best set and, despite his diminutive stature, a fine tennis player. He is well connected. His brother, Dr. William Bissell, is not only a prominent physician but, with his wife, Carmen, a giver of sought-after parties. George Bissell inherited money from the family brewing fortune (Piel Brothers and Schmidt, among others). He lives in a $1-million-plus home and tools around town in fancy cars.

The state of Florida says that George Bissell is also a swindler. It appears that, over dinner and on the tennis courts, at Palm Beach's best clubs for at least the last four years, Bissell talked many of his fellow members into investing millions of dollars in crops of orchids and palm trees through his company, DewKist Plants, Inc.

Bissell talked his friends into putting up investments in units of $50,000 for 8,130 orchid plants or 32,680 palm trees. DewKist, Bissell said, would raise and cultivate the investor-owned orchids (they're called "pups" when they're small) and palms (they're called "seedlings" when they're small). After 18 months of care, DewKist would sell them to major retail and wholesale distributors. Sale price, $10 each for the orchids, $2 for the palms. A nice business—and, oh yes, Bissell could promise a 30% return on the money.

Bissell would explain to potential investors that he needed their cash because raising orchids was so capital-intensive. Right, except it's rumored that at one point he accepted a Rolls-Royce in exchange for some of the pups.

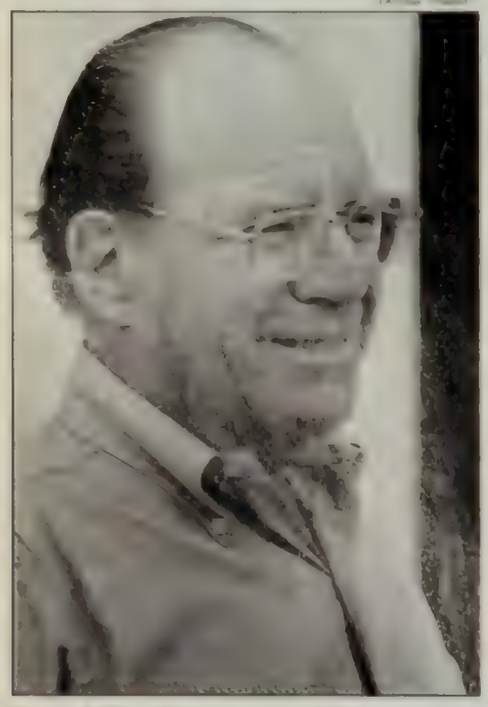
When friends said they'd love to see the gorgeous flowers they were investing in, Bissell would proudly take them through his 14-acre nursery at Apopka, Fla., 200 miles from Palm Beach. Nice touch. One problem: Lots of different investors were shown the same plants. The Florida comptroller's office, which investigates investment fraud in that state, took inventory recently and says there was a "substantial shortfall" of plants—according to investors who have now taken control of the nursery, 80% of the orchids and half the palms are missing. State officials figure Bissell not only showed, but also sold the same plants to many investors.

The comptroller's office is blunt. Bissell was running an old-fashioned Ponzi scheme, where the early investors get paid off with the proceeds from later investors until the scheme runs out of new investors and the scam falls apart.

Attorneys for DewKist put a somewhat better face on the situation: George Bissell was just a lousy businessman. Besides, crop failures and sudden freezes torpedoed their client's business.

Bissell's "investors" are less charitable. "He listed in his financial statements millions of dollars in assets—the plant and equipment from the nursery," says one of them. Unfortu-

James Kamp/Black Star



George Bissell
He promised a 30% return.

Part of Bissell's 14-acre nursery in Apopka, Fla.
A sweet-smelling, old-fashioned Ponzi scheme?

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nately, the state says, he never owned the plants or the equipment; he was only renting them.

The Everglades Club—so snooty it once turned down the Kennedy clan—has now expelled Bissell for violating a major club rule. The one about violating the trust and confidence of members? No, the rule against conducting business on the premises.

The state comptroller issued a cease-and-desist order cutting off Bissell's source of funds. Days later, DewKist filed for Chapter 11. The comptroller's office says it has been in touch with the Florida Statewide Prosecutor, who is empowered to bring criminal charges. Investors are hoping for charges of securities law violation and fraud.

George Bissell was recently reported hiding out behind the locked gates of his Mediterranean-style home at 124 Brazilian Avenue, little more than a stone's throw from the ocean. Last month Bissell's second wife, Pilar, could take the enforced isolation no more and wheeled her powder-blue Mercedes through the gates for a short spin. Word got out fast and a process server quickly appeared to stake out the driveway in order to catch her on her return. Pilar has managed to keep her Mercedes. However, Bissell's Mercedes 560SEL turned out to be leased and has been repossessed.

The investors recently held an emergency meeting at the Breakers, that grande dame of Palm Beach hotels, where they were told they'd be lucky to come out with 15 cents on the dollar. Later, a few retired for lunch to Club L, a plush new private luncheon and dinner club just a short walk from Bissell's house.

Over broiled pompano, one of George Bissell's friends allowed as how he'd lost only $50,000. "So what does that mean? One trip less to Europe this year?" another asked. "Certainly not," was the reply. Unfortunately, not all of Bissell's investors can be counted among the Rolls-Royce and limo set. About half of the $14 million invested came through brokerage firms in places like Boston and Atlanta. One of DewKist's own employees, who didn't want her name in print, volunteered gloomily that she had invested a good part of her life savings in the plants. Obviously, George Bissell made a terrific impression on her. Last spring she lent $30,000 to DewKist, supposedly for only one week, and she hasn't seen any money since.

Sighs Bissell's lawyer: "I don't think George can live in Palm Beach anymore." ■

Political Action Committees have become a money machine for keeping newcomers out of Congress and incumbents in. Some brave business people are rebelling.

Influence for sale

By Janet Novack

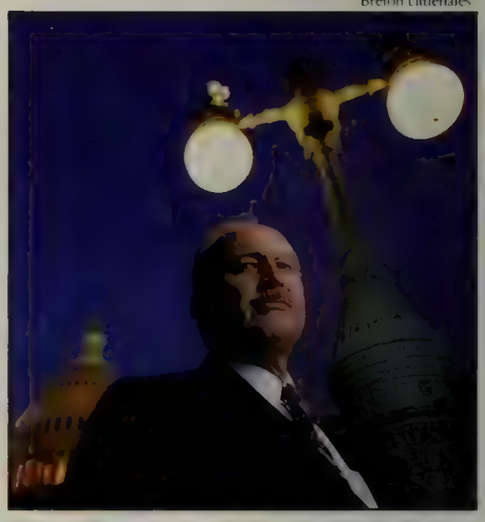
POLITICAL ACTION COMMITTEES (PACS) have received lots of attention of late. With a PAC, managers of a corporation or industry can pool their political contributions and send the money off in a lump to the candidates of their choice. In recent years, business PACs have become a powerful instrument for keeping congressional incumbents safe in their seats. They remain an equally powerful barrier to political newcomers. And they virtually guarantee that Democrats will continue to dominate the House of Representatives.

Why so? Because business Political Action Committees have become so obsessed with buying "access" to powerful incumbents ("well, he takes our calls") that they will back an incumbent even when his views are, in general, repugnant to their contributors. Thanks in part to PAC money, some 98% of House members seeking reelection last year won as congressional turnover reached an alltime low. (As the current Washington quip goes, there's more turnover in the Supreme Soviet.)

A paradox emerges: Through PACs, business people often assure the reelection of antibusiness representatives. Liberals moan that PACs have too much influence; from a business view, though, the problem is not too much but rather the wrong influence.

Now a growing, if still small, minority of business people has become concerned enough to start doing something. When Joe Gibson, a vice president of Kansas City, Mo.-based United Telecommunications Inc., took charge of the company PAC a few years ago, he looked at corporate PAC giving patterns and was shocked.

Breton Littlehales



White Consolidated's Frederick Hallett
Fed up with the PAC game.

"Business people pride themselves on managing for results. But the result of our efforts in Washington is an almost paralyzed Congress, a hostile Congress," says Gibson.

"We're paying to keep in office the people who eliminated the investment tax credit and gave us the plant closing law," complains Frederick Hallett, vice president of industry and government relations for Cleveland-based White Consolidated Industries Inc. Hallett got so fed up that in 1987 White eliminated its PAC.

Declares John Hushen, Eaton Corp.'s vice president of government relations: "The biggest problem with PACs is the inability to just say no to an elected official." Cleveland-based Eaton's PAC gave only 36% of its $180,000 kitty in the 1987-88 cycle to incumbents, with Republicans receiving nearly 98% of the cash. Besides supporting probusiness lawmakers, committees at Eaton and such companies as Maytag Corp. and Sun Co. avoid contributions that tend to make

United Telecommunications' Joe Gibson
"The result is an almost paralyzed Congress, a hostile Congress."

PACs look cynical and sleazy—e.g., giving to both sides in a race or to incumbents who face no real opposition.

With Gibson as chairman, United Telecom's PAC directed 14% of its $221,000 cache in 1987 and 1988 to challengers. If that still sounds like a lot of support for the ins, consider the dismal (and worsening) average for corporate PACs in general.

In the 18 months ended June 1988 (the last period for which a breakdown is available), corporate PACs gave 4.5% of $36 million in donations to challengers; union PACs, in contrast, risked 17% of their $21 million in contributions on challengers. Overall, 52% of corporate political committees' cash went to Democrats, up from 34% in 1981 and 1982, when it looked as if Republicans might just seize control in the House.

An increasing number of business PAC managers complain (usually privately) about arm twisting by lawmakers. Incumbents, particularly Democrats, are asking for money earlier, more often and more forcefully. What's more, big guns such as Senate Minority Leader Robert Dole (R–Kans.) and House Ways & Means Committee Chairman Dan Rostenkowski (D–Ill.) solicit for special "leadership" PACs that they—meaning the lawmakers themselves—use to contribute to other members.

"It gets to be almost extortion, some of the phone calls and threatening remarks that members make," says Peter Kennerdell, a PAC expert at the Public Affairs Council, which gives political guidance to corporations. Note, however, that many business PACs, instead of bravely turning down solicitations they consider out of line, want such requests outlawed: Stop us, before we give again.

During the last Congress, an ad hoc coalition led by the National Association of Business Political Action Committees supported some reforms—including limiting politicians' fundraising to the election cycle; banning "leadership" PACs; and barring politicians from using campaign funds for personal expenses. (Under current law, House members in office by Jan. 8, 1980 can pocket excess campaign cash when they retire. After the last election House members had a $67 million campaign cash surplus; $39 million of that was held by 190 incumbents eligible to keep the money for personal use.)

At last count, more than a dozen campaign finance bills were in the hoppers on Capitol Hill. There will be more. Even some powerful Republicans, the PACs' traditional defenders, are so fed up that they've jumped on the reform wagon. So the odds for action, although not overwhelming, are better than in the past. But a few brave business people aren't waiting for legislation. They are acting on their own to put their money where their ideals are rather than cynically using PAC money to buy influence. ■

Numbers Game

New reporting rules will cause some surprises in the 1988 annual reports. But that's just the beginning of the story.

What's off, what's on?

By Penelope Wang

In 1987 Ford Motor Co. reported $45 billion in assets and $27 billion in liabilities. Yet when investors get their 1988 annual reports from the company this spring, they'll very likely see $140 billion in assets and $125 billion in liabilities—increasing Ford's debt ratio from just 25% to an estimated 61%. General Electric, Chrysler, General Motors and other large companies will show similarly huge balance sheet increases.

Why? All these companies have enormous "off balance sheet" financial subsidiaries. Because of a new accounting rule, they're now going to have to fold the numbers of those subsidiaries into the consolidated financials of the parent corporations in any case where the parent owns more than 50% of its stock.

Chas B Slackman

The new rule is but the first step in a Financial Accounting Standards Board project that could potentially alter balance sheet accounting for many companies. The change traces to a 1984 enforcement action by the Securities & Exchange Commission, which ordered a fast-growing microcomputer company, Digilog Inc., to restate and consolidate its financials after it had buried operating losses in the income statement of a minority-owned marketing subsidiary.

Are Ford, GM and GE that leveraged? Not really, because the financial subsidiaries' assets are self-liquidating and quite marketable. So, in illuminating, the new rule also distorts.

Now FASB is working to create more comprehensive accounting rules for consolidation. On the table are plans that eventually could require corporations to consolidate in cases where they own less than 50% of another company but exert effective control over the organization anyway.

Take Masco Corp. The Taylor, Mich.-based home furnishings company (revenues, $2 billion) has several affiliates, including Masco Industries, an industrial products business spun off from the parent in 1984. Since Masco Corp. owns about 40% of Masco Industries, the latest "majority control" consolidation rules that have now gone into effect still don't apply, and the parent does not have to include the spun-off company's substantial debt on its balance sheet.

But practically speaking, Masco the parent clearly controls Masco Industries, and under a broader definition of what constitutes control, consolidation would probably be required. The two firms share the same chairman, Richard Manoogian, and operate out of the same corporate headquarters. If the two entities were in fact consolidated for balance sheet purposes, the parent would look a lot less financially healthy than it now does.

Critics argue that it will be very difficult to create a comprehensive—and consistently accurate—definition for what constitutes control. The issue of corporate control is a knotty one, and no one test is likely ever to be completely accurate. The authorities are to be commended for trying to make financial reporting more concise, but they may, in the effort, simply end up confusing people. ■

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Computers/ Communications

The computer revolution, like the railroad revolution before it, is reaching critical mass. For both industry and investors, there will be winners and losers.

The supernets are coming!

By Michael Gianturco

THE SUDDEN PROLIFERATION of microcomputers, now almost 20 million of them, is precipitating the interconnection of computers and proprietary networks into "supernets"—networks too large and diffuse to be controlled by any single company. The process has acquired the restless energy of a social force.

Interconnection instantly eliminates computer manufacturers' extraordinary profits from captive markets. No longer can, say, IBM count on its customers' buying additional IBM products just because their existing computer equipment is heavily IBM. But the change also offers possible new profits by opening up competitors' markets. Who will win—and who will lose?

I believe a little-known historical precedent offers some guidance: the development of railways in early-19th-century Britain. The analogy isn't as farfetched as it sounds. The British railroad supernet emerged in two steps. First, many proprietary railroad systems sprouted spokes simultaneously from major metropolitan hubs, like wagon wheels. Eventually, when these systems grew large enough to intersect, they suddenly fused to form a supernet—a nationwide railway network.

When the brilliant engineer Isambard Kingdom Brunel built the Great Western Railway in 1836, he set his rails 7 feet apart specifically to protect his network and his markets. Almost all subsequent construction in Britain was standardized at a narrower gauge of 4 feet, 8½ inches.

Brunel argued that he had developed a superior railway technology. He was right. His broader-gauge tracks accommodated bigger engines and, because of the sheer colossal breadth of their fireboxes, they pulled harder and ran faster than contemporary narrow-gauge locomotives. Fully two decades before the American Civil War, Brunel's strange locomotives (they looked rather like gigantic medieval cannons) were routinely traveling in and out of London at average speeds near 60mph.

Yet the performance of these individual machines didn't ultimately count. What mattered more, then as now, was the performance of the network as a whole. The growth of the British railway network was slowed by the very existence of Brunel's incompatible broad-gauge tracks.

So long as Great Western's was a proprietary hub-and-spokes network, no real problems arose over the incompatibility of its broad gauge. But when the Great Western track first intersected with standard-gauge lines from the Midlands and the north of England at Gloucester, the inconvenience of having passengers change trains and of transshipping freight at

Michael Gianturco is a Princeton, NJ money manager and editor of the Princeton Portfolios, *a high-technology investment letter*

Gary Hallgren

the "break in gauge" turned the issue into a noisy public cause.

The outcry from customers was the 19th-century equivalent of today's vocal complaints from computer users that their machines won't readily "talk to each other." As the GWR sprouted lines northward toward areas of industry, through Oxford and Birmingham, the intersection problems grew worse.

Brunel and his successors put up a long and tenacious struggle. But on May 20, 1892, the British railways were finally standardized to the narrow gauge by parliamentary decree. At Swindon, the terminus of the Great Western, special tracks were laid down to provide a parking place for 15 solid miles of empty carriages and cold locomotives. It must have seemed the end of greatness for the GWR. But it wasn't. After a half century of resisting it, the company converted its track gauge in one weekend. It quickly modified its cars and its engines and resumed operations.

So what had been demonstrated? Simply that network compatibility was more valuable to the market at large—Britain in this case—than the isolated performance of any particular train-building technology, however wonderful. Engineered incompatibility ultimately failed as a device to protect GWR's network. And just as important is the timing of its demise. The change in gauge particularly affected GWR, but the real and underlying change was deeper, broader—and structural. Because of the increasing number of intersections of proprietary systems, a change in identity occurred. A collection of isolated wagon-wheel networks fused into a pervasive nationwide gridwork: a supernet.

In the U.S. the railway gauge problem was solved, almost incidentally, by the government's selection of a standard gauge for the transcontinental railway in 1862. Some observers see this as a model by which U.S. computer networks will be unified into a sort of grand national brain: The government is one of the computer industry's largest customers, and its standards could become dominant.

But microcomputer networks could simply overgrow and supplant the existing, senior lines of mainframe and minicomputer networks. Similarly, the GWR, if it had not changed, would probably have been bypassed by narrow-gauge operators. In this situation, most managements would rather settle for half a loaf—or a third, or a fourth, or the nth part of however huge a supernet finally does emerge.

The lesson for investors is clear. Avoid placing bets on any side of the compatibility wars. The outcome, which is compatibility, is a foregone conclusion. Established computer manufacturers will find their proprietary networks invaded; smaller, newer companies will discover great opportunity. It is no accident that the supernet concept finds its most vigorous proponents among desktop computer manufacturers like Compaq Computer Corp.

For example, the blossoming Local Area Networks of PCs are making a strong bid for new applications business—sales that might have, until recently, gone straight to the minicomputer and mainframe manufacturers. "It's probably the most powerful force at work in the computer industry," says Compaq Chief Executive Rod Canion, "this undeniable upward march of PC power."

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Where we go from here.[SM]

This is how I see the game being played out:

The losers: The established manufacturers stand to suffer in proportion to their size—and IBM is the biggest. IBM's senior and most profitable mainframe and minicomputer lines are being challenged by the PC genie that IBM itself let out of the bottle. IBM's Token Ring Network, regarded as the best technology for creating Local Area Networks, also works against its senior lines. This isn't to say that IBM is in deep trouble: Its mainframe business, because of the sheer size of its machines, is somewhat insulated from the "upward surge" of smaller systems.

Digital Equipment faces similar problems. At the high end of the market, where DEC competes with IBM, interoperability works to its advantage in opening up new business. But at the low end, in workstations, for example, interoperability is opening the company up to competition.

Indeed, because minicomputers are the core of DEC's business, unlike IBM, the company will probably feel the effects of these trends first. In large-scale mini applications, "their VAX/VMS architecture is running out of gas," according to Hambrecht & Quist analyst Robert Herwick. In addition, DEC's technology at the desktop level is less successful than IBM's. And in workstations, DEC has had difficulty competing with Sun Microsystems and other Reduced Instruction Set Computer processors.

DEC is not asleep. It is parrying the RISC threat by bringing in an extramural technology, developed by Mips Computer Systems. It has formed a cooperative arrangement with Apple and Tandy in the desktop arena. And it has entered an alliance with IBM to help define Unix, the AT&T operating system that is playing a key role in facilitating enhanced connectivity, one of several efforts by DEC to pace and direct this inevitable process. But DEC is very much on the front line.

Other companies with minicomputer exposure are at risk—Data General, Unisys, Prime. But I think Hewlett-Packard is an exception. It is likely to turn the trend to connectivity to its advantage, and to emerge—as it so often does—as a leader in the field.

The winners: Compaq, Apple and AT&T have everything to gain and nothing to lose. Compaq excels at extremely powerful microcomputers that can be used in small networks. AT&T, although a huge company and not a pure computer play, has the advantages of a newcomer—having no senior hardware to defend, its hands are free. Apple, despite its recent and highly visible tactical error in microchip purchasing, is small and flexible, and may also have the necessary distance from the problem to truly understand what is happening.

As the supernets emerge, the computer business will increasingly become a software business. A very substantial component of Apple's $400 million annual R&D budget goes to software development. Significantly, Apple has declined to join in the Unix argument. Apple Chairman John Sculley says the company will support whatever standard emerges.

Other winners: smaller companies developing connectivity technology—Novell, 3Com and Oracle.

Robert Morris of consultants Applied System Technologies sums it up for both the industry and the investor: "The day when a company could lock the world into its hardware is over. And there is no going back." ■

The computer industry has done a lousy job of making its machines interchangeable. Phoenix Technologies is coming to the rescue with computer imitations.

The sincerest form of flattery

By David Churbuck

WHY CAN'T COMPUTERS be like stereos? A stereo buyer can safely assume that his cassettes, compact discs and records will play on any machine he buys. Computers are a different story. Software has to be written to run on a specific microprocessor—the silicon heart and soul of a computer—and software that runs on one microprocessor won't necessarily run on another. This fact of computing life has led some users to have two, even three, computers on and under their desks. A committed user might have an IBM PC or clone for spreadsheets and word processing, a Sun workstation for engineering and scientific tasks, and an Apple Macintosh for desktop publishing. The three machines can't run the same programs, because they have three different operating systems. The IBM speaks DOS, the Sun speaks Unix, and the Apple a dialect peculiar to Apples.

Neil Colvin thinks the situation is ridiculous. He should know: He has four different computers on his desk.

Colvin, founder and chairman of Phoenix Technologies in Norwood, Mass., has built a nice little business around the demand for emulators, devices that enable one brand of computer to act as if it were another brand. There are two ways of emulating. The hardware way is to add a circuit board containing a "coprocessor," that is, a processor chip of the sort found in the second computer. These add-on boards aren't cheap. The coprocessor that is stuffed into an Apple Macintosh II to enable it to run software written for IBM machines runs $1,600 from AST Research.

The other way of emulating—Colvin's way—is with software. Phoenix is providing computer makers such as Sun Microsystems with the software needed to allow that company's newest workstations to run programs written for IBM PCs and IBM PC-compatibles. Cost: not easily assigned since this software comes free with the machine. But a Phoenix competitor is selling an IBM emulator for Apple computers for a third the price of the AST board.

Users want these emulators so they can get the much-needed interchangeability of software that the computer industry has so far failed to give them

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Gerry Mooney

Comp/Comm

An Apple user, for instance, may want to switch to IBM, but doesn't want to have to buy several thousand dollars' worth of spreadsheet and database software all over again. Or an IBM user contemplates switching to a Unix operating system but discovers that a fair amount of software is available only in DOS.

Colvin, 39, founded Phoenix in 1979 to sell tools for software developers writing applications for the old and now obsolete CP/M standard. Colvin's background in working with the innermost secrets of PCs paid off in 1984 when the company began licensing its knockoff of a critical element of the IBM PC, the basic input/output system. Although embedded on a chip, this system is really nothing but software, that is, a series of instructions to the machine. It enables the processor to get its bearings and communicate with the other parts of the computer when the computer is first switched on.

Colvin, whose MIT and Harvard degrees are in electrical engineering and computer science, is a smart programmer. But he's clever about something [illegible] to navigate through the law [illegible] intellectual property. Colvin [illegible] invention of the "clean room" concept, a now common technique for legally duplicating technology by putting an engineer into isolation and then asking him to write a piece of software that will do what a competitor's product does.

Reverse engineering in a clean room is the software equivalent of knocking off an automobile by letting an engineer drive it around the block but not allowing him to open the hood. To be sure, such niceties won't take you very far in the automobile business. That's because the patent on, say, a new fuel injector stops competitors from using a similar device, even if they can prove they arrived at the invention independently.

But clean room copycatting can overcome the copyright and patent protection that would cover something like a computer's operating system or its basic input/output program. You tell your engineer you want the computer to behave in a certain fashion, and he finds a way. By guaranteeing that the engineer never sees the "insides" of the software being copied, you can get a clone that stands up in court. Phoenix' software has stood up; at least, IBM hasn't sued. Today the company claims that more PCs equipped with its input/output software have been sold than IBM PCs.

From input/output cloning to the bigger job of emulating is a natural leap. Emulation is simply a matter of cloning everything in a target microprocessor's behavior. Phoenix is scoring here, too. Last year Sun Microsystems introduced the 386i, a Unix workstation that can also run DOS. Sun went to Phoenix to get the secret to running DOS applications with a machine built for another operating system. Last month Digital Equipment Corp. introduced a new line of inexpensive workstations that run DEC's operating system but can also run application software written for the operating system of the IBM, that is, written for DOS. Digital is considering using emulators from Phoenix.

William Poole, Sun's product manager for the 386i, explains why his machine is multilingual: "It's a requirement these days. You can't push your customers off a cliff and hope they can fly."

Phoenix, which netted $8.1 million on sales of $45 million in its September 1988 fiscal year, sees a burgeoning market for emulators among new buyers of workstations. These scientific machines are getting popular with business users—the people who have an enormous investment in IBM-compatible software. The native language of most workstations is Unix. An emulator is necessary for these machines to run a Lotus 1-2-3 or a dBase purchased for DOS machines.

Emulators have their drawbacks. The computer first has to execute instructions from its own or native microprocessor before executing the software version of the other microprocessor. That extra step can slow things down, especially if graphics are involved.

"The first PC microprocessors were so slow that waiting for a PC to run a program while imitating another program was like waiting for Christmas," says Richard Shaffer, publisher of the newsletter *Technologic Computer Letter*. "But now that the microprocessors inside the new workstations are becoming very fast, most users wouldn't know the difference."

Phoenix has competition, too. Insignia Solutions of Sunnyvale, Calif., a subsidiary of a British firm, sells SoftPC, which allows an Apple Macintosh to run software written for the IBM PC. Cost: $595. To date, neither Phoenix nor Insignia has created an emulator that goes the other way, turning an IBM into a Macintosh. But scientists in a Phoenix clean room are considering such a system.

The best of all possible worlds would be one with easy portability of software from machine to machine. That day, if it ever comes, is a long way off. In the meantime, Phoenix should have a lot to keep it busy. ■

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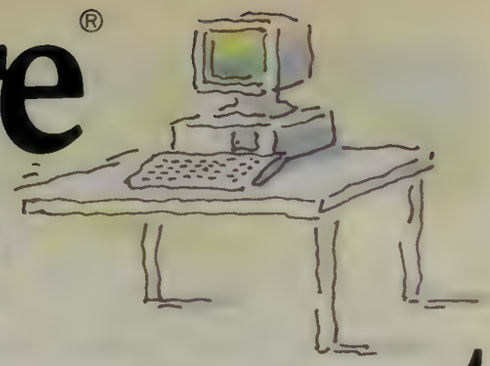

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Science & Technology

Edited by Gary Slutsker

In the field of airline terrorism, offensive technology is cheaper than defensive technology. And so passengers will pay a lot for safety and still not be safe.

Kaboom!

ON THE LAST DAY of his life, Air Force Staff Sergeant Donald Lunger sat in his 1971 Chevy pickup in a motel parking lot in Perry, Fla., waiting for all the guests to check out of the Southern Inn. At 10:23 a.m., Lunger, a 30-year-old bomb disposal officer at Eglin Air Force Base, detonated a bomb in his truck containing 11 pounds of Composition C4, a plastic-bonded military explosive he had stolen from the base. The blast turned the pickup into scrap metal and sent parts of Lunger's body flying the distance of three football fields away.

Lunger's apparent suicide last year illustrates the ready availability of an extraordinarily potent military explosive. Composition C4 and Soviet-bloc-made Semtex are plastic-bonded explosives, the type of material the FBI suspects may have blown up Pan Am Flight 103. Some 5 million pounds of Composition C4 were made in a U.S. government plant by Eastman Kodak last year. It is handled by so many thousands of personnel that the military seldom notices when small amounts disappear. How much is missing? No one knows. Over the last ten years authorities have recovered some 4.6 tons of military explosives, including C4 and the less potent TNT. That doesn't include the estimated 20 tons of C4 shipped to Libya in the late 1970s by convicted renegade CIA agent Edwin Wilson.

What does this mean to airline passengers? Huge outlays for defense, and still no peace of mind. The cheap way to foil terrorists is to adopt a police state, with warrantless searches and Draconian penalties. An open society that won't tolerate such tactics must resort to the more expensive route of technology. In the technology battle, however, the terrorists have the upper hand. It's cheaper to make a bomb than to make a bomb detector. Society can win only at huge expense.

Bureau of Alcohol, Tobacco and Firearms

Southern Inn after blast
Huge outlays for airplane security.

The earliest airline bombs were made of garden-variety explosives like dynamite. With the use of an ordinary X-ray machine, security officials could spot sticks of dynamite attached to batteries and wires—as well as discover guns. The terrorists came back with plastic-bonded explosives, which are harder to detect. Science is now responding with bomb sniffers, devices costing up to $250,000 that can detect tiny concentrations of the vapors given off by explosive chemicals. Terrorists will have an answer to this, too: better wrapping of the explosive in a bomb. Next in defensive strategies is a high-tech neutron bombardment device that will run the cost of bomb detectors into the millions of dollars per airport. There are 400 major airports in the U.S. (with some, like Washington's National, having over ten baggage check-in points) and some 50 in Europe, the Middle East and the Far East receiving American flights. Total potential cost: billions.

So far the Federal Aviation Administration and the State Department have spent over $20 million in the last few years to develop chemical bomb sniffers and neutron activation detectors. The devices apparently work well enough, and so the government is buying them for U.S. embassies and may force airlines to buy them.

Money well spent? Quite possibly, no. "The answer is not spending tens to hundreds of millions of dollars on equipment that may not even work," says Neil Livingstone, president of the Institute on Terrorism & Subnational Conflict, a Washington policy group. "The Israelis have the highest level of threats with El Al, but they don't rely on technology because first, they can't afford it, and second, it's unreliable."

In 1986, when El Al discovered a bomb in a suitcase checked onto a Boeing 747 bound for Tel Aviv from London, it did so in spite of technology. El Al employees became suspicious after questioning an Irish woman who said she was going to Israel to marry her Palestinian-Jordanian boyfriend. Her bag had cleared the airport's X-ray device. It was El Al's policy of questioning passengers and searching luggage by hand that led to the bomb's detection. The explosive itself had been concealed in a false bottom of the suitcase.

In the early days of airport security, finding bombs concealed in suitcases was a relatively simple matter with X-ray machines. But in those days, and in the late 1960s and early 1970s, planes were hijacked primarily by homesick Cubans, felons and lunatics looking for free transportation. Soft targets. But now U.S. airlines spend $500 million a year on domestic security. Half that amount is the cost of inspecting carry-on luggage.

Today, of course, bombs no longer look like bombs. Thanks to the availability of high-performance plastic-bonded explosives like C4 (colloquially known as plastic explosives), killers can make bombs that look like everything from souvenir dolls to boombox radios.

There are basically two ways of finding explosives hidden in baggage, and both of these systems can be defeated, at least in theory. One method

Bombers' choice

What's so great about plastic-bonded explosives made from chemicals like RDX and PETN? Three things. They give more bang for the same volume of material than nitroglycerin or TNT. They're safer for the terrorist because they are harder to detonate. And they give off less vapor, making them harder to detect.

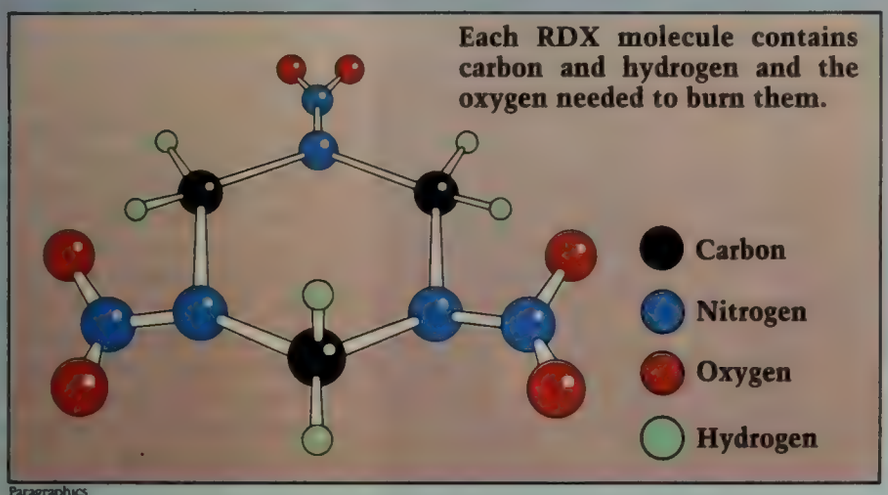
Composition C4, a U.S. military explosive similar to the Soviet bloc's Semtex, is a plastic-bonded mixture containing some 91% RDX crystals, 2.1% rubber, 1.6% oil and 5.3% thermosetting plasticizer. RDX, also known as cyclonite, is manufactured throughout the industrialized world. The additives are readily available from commercial channels. (Do-it-yourselfers, though, mix these ingredients at great personal risk.)

What makes an explosive explosive? It doesn't pack much energy—much less than the same weight of gasoline, for example—but it can chemically decompose, releasing that energy in a very short time (for a handful of RDX, one 50,000th of a second). The speed of that reaction comes from the fact that the fuel and the oxygen to burn it are so close together—on the same molecule, in fact. Each RDX molecule contains a good balance of carbon and hydrogen fuel and of oxygen, carried by nitrogen *(see diagram)*. TNT, by contrast, has an excess of carbon atoms, which accounts for the black bomb smoke that accompanies a TNT bomb blast.

Mere heat won't detonate C4. Indeed, American GIs in World War II used a similar explosive as cooking fuel, says Al Popolato, an adviser to the Center for Explosives Technology Research, Socorro, N.M. To initiate an explosion you need a shock wave. This can come from an ordinary commercial blasting cap of the sort used in the construction industry.

Could government make the skies safer by controlling explosives more closely? Not easily. "A bright high school kid wouldn't have too much trouble making an improvised plastic explosive," says Seymour Lecker, a former Israeli bomb disposal squad member and author of *Deadly Brew: Advanced Improvised Explosives.*

Wonder how well the book is selling in Syria?—G.S.



Each RDX molecule contains carbon and hydrogen and the oxygen needed to burn them.

Paragraphics

involves sniffing in the vapors emitted by an explosive for the telltale nitrogen-oxygen pair that is common to all explosives *(see box)*. Dynamite, which gives off a lot of vapor, is a snap for modern chemical detectors or even a well-trained dog.

Terrorists are wise to all this. They don't bother with dynamite anymore. They prefer explosives like RDX and PETN, both of which (a) can be plastic-bonded and therefore made easy to work with, and (b) have very low vapor pressures. Scientists for the defense are dealing with the low vapor concentrations by incorporating in their sniffers a device that functions like a portable vacuum cleaner, sucking the air out of the suitcase and blowing it through the chemical nose.

Such a system could be foiled by sealing the bomb in some impermeable material, such as the thick plastic used in soda bottles. Here's John Wood Jr., president of Thermedics, a Woburn, Mass. company picked to develop vapor detectors for the government: "We've steadily pushed the sensitivity of our device to find trace elements concealed under more and more difficult conditions, but the State Department and the FAA have classified the detailed operating principle and performance of our device for good reason—to keep it out of terrorist hands."

No question, Thermedics has increased the sensitivity of its sniffer, from the range of parts per million in the 1970s to better than one part per 100 trillion in a detector tested last fall at Boston's Logan Airport. Nevertheless, a terrorist intent upon packing the bomb with care has a decent chance of foiling the system. "It's an evolving threat and one that we have to stay ahead of," acknowledges Wood. "It will never be a case of saying we've mastered the problem and it's all done."

The second sniffing method is harder to stump. Called thermal neutron activation, this system bombards a suitcase with a cloud of neutrons, electrically neutral atomic particles. These neutrons invade the suitcase, colliding with atomic nuclei, which discharge characteristic gamma rays. A device can be tuned to measure gamma rays at the level in the energy spectrum emitted by nitrogen nuclei. Such a device is being made at a cost of $1 million apiece by Science Applications International Corp. of La Jolla, Calif., an employee-owned research outfit under contract to the Federal Aviation Administration.

But even thermal neutron activation could probably be beaten by terrorists, for a lot less than $1 million. Possible solution: Encase the bomb in a neutron stopper like cadmium. Then wrap that package in something else that would give off innocent-looking gamma rays. Science Applications says that its detector could be enhanced to detect such tricks. Says Tsahi Gozani, the firm's chief scientist: "If they do this, we will detect it because that's part of the defeat mechanism that we've considered. Nothing is perfect 100% of the time, but this technology has so many features that it's very difficult to defeat them all. And you don't give a blueprint of the system to the terrorist."

It may well turn out that a mix of technologies is the best defense. Terrorists nonetheless have certain practical aspects of the battle on their side. A lot of baggage goes through airports. If a detector is too sensitive, the false alarms will cause baggage handling to grind to a halt. If the detector's alarm threshold is set too high, some bombs will get through. In short, the battle is not going to get any cheaper for the airlines. Count on ticket prices going up.—G.S.

Edited by Jeffrey A. Trachtenberg

Fred Schwartz was one of the first to build a major fur business selling to the masses. But the market he created got away from him, and now he's looking for a new job.

R.I.P. Fred the Furrier

In 1978 the Fur Vault launched the most successful, most talked-about marketing campaign the fur industry had ever seen. There, on New York City television and eventually along the entire Eastern Seaboard, was silver-haired Fred Schwartz, resplendent in a tuxedo and blue ruffled shirt, beaming with pride as he extolled the wonders of his very affordable minks, raccoons and coyotes. "Ann, Barbara, Emily, I've called lots of women to the Fur Vault," crooned Fred. "Come to my $1 million fur event . . . Emily, I'm waiting for you."

Fred opened a world of luxury to the increasing numbers of salaried women who were flooding into the work force. His first Fur Vaults were in the aggressively middle-class stores of the Alexander's retail chain. And his matter-of-fact approach to furs was a welcome relief to customers who had been intimidated by snobby clerks at the stuffy salons in which most furs were then sold. By 1984, with revenues of $28.6 million and profits of $2.5 million, Fred the Furrier went public at $11 a share on a presplit basis and was listed on the American Stock Exchange.

Today, what started with so much flair has become a marketing and commercial fiasco. The stock languishes at about $2.50 a share, and this May at least one analyst expects the company to report its second straight year of losses. Fred Schwartz resigned last October as chairman of the Fur Vault, and his employment contract with the company was settled. His successor is Bob Miller, who was recruited by Schwartz and is the former president of Charles of the Ritz, the cosmetics and fragrance house.

Chip Simons

[illegible] president of the Fur Vault

"We have an identity crisis today, but it happened over time."

What happened? Plain bad luck, to some extent, bad marketing and bad management to a greater extent.

When Fred Schwartz launched his Fur Vault TV blitz in 1978, he was basically the only retailer in town promoting mink coats at $2,400 or less. But others noticed, and within five years lots of retailers, including Antonovich Furs, Macy's, and most recently the Korean-owned Jindo Corp. (Forbes, *Apr. 18, 1988*), began to compete at similar price points. Several years ago business thinned and profit margins shrank. Fred the Furrier, lured by the far fatter margins of mink coats with an average price of $3,500, began flirting with richer customers. "Our market research told us that our name was not associated with better merchandise," Schwartz recalls today. "So we changed our advertising. I began to appear in fewer ads, and we downplayed Fred the Furrier as a performer, and emphasized his fashion authority."

In 1987 out went the old, good-hearted, accessible approach. In came traditional, boring (if you will) commercials

Fred the Furrier ad: 1979
A powerful brand image.

showing pretty models in obviously expensive furs.

"His original outrageous commercials were fun and made you feel good about him," says Miller. "Then they decided to upgrade the company, but there was never really a formal plan. As a result they sent very confusing messages."

Fred Schwartz failed to realize that his Fred the Furrier persona had created a powerful brand image: the warm, friendly person your cousin would feel comfortable with, ready to answer questions sensibly and willing to provide good values and easy credit terms. Without that familiar, consistent image, the Fur Vault was just another retailer.

The customers weren't the only ones confused. In its advertising the increasingly unfocused company promoted itself under a variety of names, including Fred the Furrier; Fred the Furrier's Fur Vault; Fred. The Fur Vault; and the Fur Vault. "The company used different logos, different styles of print, and even different kinds of garment bags and brochures," says Miller. "That might not sound like much, but all a retailer has is his brand image. And image is conveyed in a continuous, consistent presentation of the message you are presenting. We have an identity crisis today, but it didn't happen at once, it happened over time."

Nearly as bad, Schwartz rushed into some very expensive and inappropriate expansions: mall stores in Virginia, Maryland and Connecticut. Mall occupancy costs tend to be nearly double those of stand-alone stores. Schwartz, a man who knew so much about so many parts of the fur business, says he thought the mall stores would pay off because of the additional traffic malls produce. In practice, relatively few sales are made to off-the-street browsers. People do not go to the supermarket and then drop into Fred the Furrier for a mink. Clever ads featuring low prices pulled in the customers. The three mall units remain unprofitable today. Why doesn't Miller close them? "We have valid contracts, and I'm not about to spend my time in litigation," he says.

Today there are also ten leased departments at Bloomingdale's (which are also widely believed to be unprofitable) operated under the name Northern Lights, and one leased department at Rich's in Atlanta that does business as the Fur Vault. The company also operates eight other Fur Vaults and two fur and coat outlet stores, plus two Andrew Marc stores (which sell moderately priced leather coats).

The final blow to Fred as we knew him came about 18 months ago as the market began whipsawing the industry in general. In 1987, stimulated by what must have looked like insatiable demand, fur skin prices had gone up 30% to 50%, and furriers, including Fred, were buying everything in sight. When the stock market crashed on Oct. 19 and customers began holding their wallets tighter, Fred and the rest were caught with expensive and badly bloated inventories. Losses for the year ended May 28, 1988 amounted to $4.3 million on sales of $110 million, against profits of $4.1 million on sales of $91 million a year earlier.

What's ahead? Fred Schwartz, still holding stock worth roughly $3.25 million, is in the process of cleaning out his office and is looking for a new venture. Bob Miller is already developing a new logo and a new image for the Fur Vault stores, and is adding collections of scarves and small leather goods. Miller has also begun concentrating on the company's growing leather coat business under the Andrew Marc label.

Says Bob Miller: "One thing I've learned about marketing is that what works at one point in time doesn't necessarily work later. We can't tell women today that it's okay for them to buy their own fur coat; they'd resent that. We don't intend to live in the past."—**J.A.T.**

Toys "R" Us and Wal-Mart Stores have done well keeping prices low all the time. Now Sears and Montgomery Ward have added new momentum to an important new marketing bandwagon.

Price is the object

By Steve Weiner

THE BEST WAY to bring customers flocking into any retail store? Textbook answer: a major promotion with heavily advertised price cuts of 30%, 40% or more.

Just one problem. It doesn't work so well anymore. "You advertise 25% off these days and most customers just sneer at it and wait for the 'real' sale," says one discouraged retail executive at a major national chain.

This year, however, promises a major change. A sharp shift in marketing strategy at Sears, Montgomery Ward and Dillard's, a major test at Target and experiments by Ames and others signal the rise of what the trade calls "everyday low pricing." It is a move that promises to improve profits, sharply reduce the number of reduced-price sales, and give general merchants a chance to compete with discounters and specialists.

How does it work? First, stores cut prices, usually by 20% to 40%, on much or all of their merchandise—in effect, dropping prices permanently to or near their former "sale" prices. Then they mostly abandon reduced-price advertising. Dillard's, for example, has dropped at least one major promotion; Sears in Wichita and Target in Albuquerque did virtually no reduced-price promotional advertis-

ing before Christmas, in vivid contrast to most competitors.

"Lifestyles have changed, and people don't have time to chase after sales," says George Hite, a vice president of Target Stores, the $6 billion (sales), 341-store discount arm of Dayton Hudson Corp.

This value-pricing approach has begun to snowball; by the end of 1990, most middle-market merchants will probably have adopted some form of it. "Everyone will jockey to maintain market share," says Michael Wellman, vice president for marketing and planning at K mart Corp.

Two immensely successful retailers—Toys "R" Us and Wal-Mart Stores, the big discounter—are among the handful of stores that have always relied on some form of everday low pricing. Montgomery Ward, the $4.6 billion (sales), 324-store chain, dropped prices last year on 85% of its merchandise. Sears, Roebuck & Co. plans to convert its $30 billion, 824-store chain to everyday low pricing this spring after a successful test that began last fall in Wichita.

Dillard's Department Stores, Inc., the $2.2 billion (sales) operator of 146 stores selling better-quality goods, began emphasizing everyday low pricing a year ago. Ames Department Stores has about 20% of the 70,000 items in its 361 discount stores on everyday pricing. Ames says it may adapt the system to its 318 newly acquired Zayre stores. And Target is testing the concept at its two new stores in Albuquerque. Declares its advertising there: "It's like shopping a nonstop sale!" True enough: A FORBES comparison shop of 22 commonly needed items showed that Target in Albuquerque matched or beat Wal-Mart pricing about two-thirds of the time and matched or beat K mart pricing 90% of the time. Target says sales have exceeded expectations.

On item after item, from electronics to sportswear, Montgomery Ward and Sears are now priced with, or better than, most Wichita competitors.

Larry Fleming

A Sears test market store in Wichita
Fewer promotions, larger profits.

Cradoc Bagshaw

A Target store in New Mexico
Many customers no longer chase sales.

But Ward still retains some reduced-price promotions to keep things lively. "The difference is that you'll see less of these tremendous differentials between regular prices and promotional prices," says Bernard Brennan, Ward's chairman and chief executive officer. "You know that if you want to pay less for something, you don't have to wait for a sale to get it," says Stella Parmele, a Ward shopper.

The advantages for the retailer are clear from Sears' experience. Sears used to put 9,000 or more items on sale each week in Wichita, requiring new displays and expensive movement of a glut of merchandise. Promotional merchandise often stunted sales of similar goods because items of better and lesser quality, by comparison, looked too expensive. "It made our stores into museums," says Michael Bozic, Sears merchandise group chairman.

None of this happens under everyday low pricing. Styles have a consistent price relationship to one another, so customers easily see which is the best buy. Sears and others have found that this also means customers are more likely to trade up to fancier goods, improving profit margins. Sears has also expanded and trained its sales help, sharply improving service.

All this is why the Sears Towne East store in Wichita notched a December sales gain several percentage points better than that of all other Sears stores, while profits surged at rates 40% higher than those of comparable stores. Sears cautions that other stores may not do so well, but nonetheless it is installing the system nationally.

And the competition? Somewhat sourly, Wal-Mart has purchased ads in Albuquerque and Wichita declaring itself the real low-price leader. Signs posted at its Albuquerque cash registers blare: "Don't be fooled! There's always someone trying to imitate Wal-Mart's Everyday Low Prices."

K mart has responded, too. Two price tags are pasted on Black & Decker saws at a K mart near the Towne East mall. One tag says the price is $41.97; a second says the new "everyday low price" on the same item is $31.97. "We were told to drop our prices to match Sears' prices," a supervisor says.

Certainly everyday low pricing is not for every retailer. Cut-rate outlets such as warehouse clubs at the low end and fancier department stores that emphasize fashion, service or upper-crust niceties, for example, will not embrace it. "Pricing is just one facet of offering value to the customer, but you can also offer it through service, assortment, convenience, location and other ways," says Philip Miller, chairman and chief executive officer of Marshall Field's, the Chicago-based department store chain.

But, for the vast middle market, everyday low pricing will spread rapidly. It offers far too many advantages to both retailers and shoppers to ignore. ■

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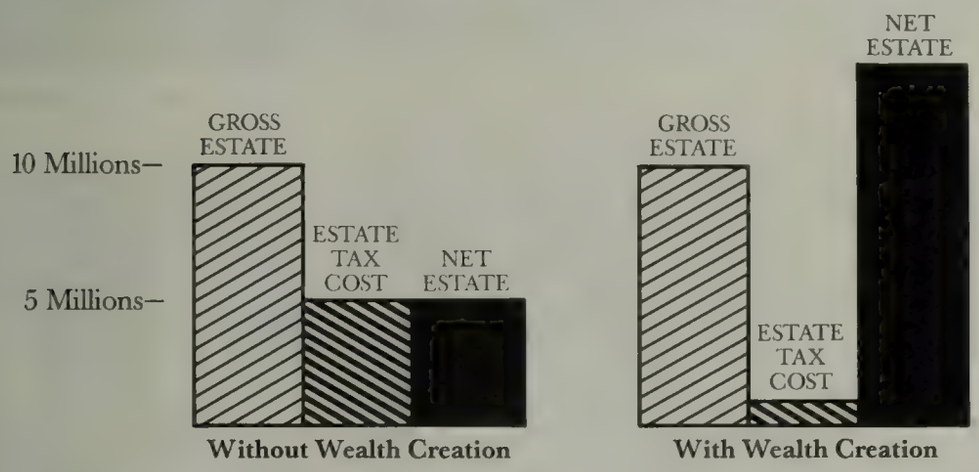

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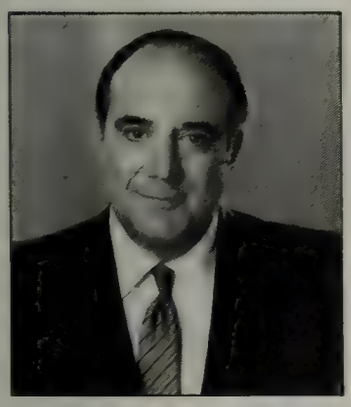

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WEALTH CREATION AND PRESERVATION WEALTH CREATION AND PRESERVATION WEALTH CREATION AND PRESERVATION

Personal Affairs

Edited by William G. Flanagan

Can't afford to put your name on a hospital wing or tennis stadium? How about a tree, a quarterback or a violinist?

The thoughts that count

Save 10 acres of Montana's Little Bigho

Robert Beck/USC

USC football position: $250,000

By Anne Matthews

INVESTOR-MONEYMAN Henry R. Kravis has some rich friends. Recently, he leaned on some of them to help fund a pet project, the Kravis wing at New York's Metropolitan Museum of Art. It will house European sculpture and decorative arts.

Kravis himself gave $10 million. Larry and Bob Tisch—no strangers to philanthropy, or to Kravis—coughed up $10 million, thereby getting their names on a gallery in Kravis' wing. The City of New York added $13.5 million. Another $1 million came from the estate of Lila Acheson Wallace, cofounder of *Reader's Digest*. In all, $51 million will have been collected for the Kravis wing, and he is now a trustee of the museum.

Among other star donors in recent months: Harold C. Simmons, the Dallas investor, $41 million to the University of Texas Southwestern Medical Center; Leonard Stern, of Hartz Mountain, $30 million to New York University; Bill and Camille Cosby, $20 million to Spelman College in Georgia. And the beat goes on.

The most generous individual donor FORBES could find in recent years gave $50 million to the New York Hospital-Cornell Medical Center—anonymously. But most philanthropists like to take credit, as fundraisers know. They will slap a plaque on damned near anything, any place—or anybody—if it can loosen someone's purse strings. Witness:

Music and the arts. New York's Dalliard School will put your name on a new concert grand piano for $25,000; the practice room to house it runs $50,000. You can fund musicians, too. A few years ago, for example, Cambridge, Mass. entrepreneur Leo Beranek endowed the concertmaster violinist's chair at the Boston Pops and an English horn chair for the Boston Symphony Orchestra.

The Tampa Bay Performing Arts Center, seating 3,600, will bear your moniker for $10 million. A single chair back goes for $2,500.

The environment. The San Diego Zoo will let you support a cheetah for $500 a year, or a zebra for $200, or an elephant for $1,000. The Los Angeles Zoo will let you adopt and even name one of its cheetahs for $15,000. The Brooklyn Botanic Garden's new Tropical Pavilion awaits a sponsor. The price tag: $1 million. For the American history buff, $6,000 or so can preserve 10 acres of Montana's Little Bighorn Battlefield; the prairies where Custer made his Last Stand could otherwise face development.

Religion. A Gothic pinnacle at the National Cathedral in Washington, D.C. awaits your sponsorship for $400,000. Or you can pay for a single carved angel ($6,000 for the large model, $5,000 for the small). For $100,000 and up, your name could adorn the new airport chapel at Dallas/Fort Worth International.

Sports. Some fans donate whole sports complexes, like the indoor 12-court A.C. Nielsen Tennis Stadium at the University of Wisconsin, a gift from the alumnus who created that TV ratings system. At the University of California's Berkeley campus, you will soon be able to endow swimming lanes and baseball dugouts. The University of Southern California is peddling the positions on its football team. Already there is the Chester H. Dolley quarterback and the Richard Alden center. One defensive back is still available, for $250,000.

The latest sports bequests trend is funding staff. In 1988 Playtex' chief executive gave $1 million to Yale to establish the Joel E. Smilow ('54) Coach of Football. Cornell, Princeton and the University of Rochester have received coaching position endowments in several varsity sports.

Education. The Ivy League has been into the name game so long that it is running out of things to put names on. Donors' names presently grace drinking fountains, silver tea services,

Peter Miller/The Image Bank

Battlefield from development: approximately $6,000

David Strick/Onyx

Cheetah at Los Angeles Zoo: $15,000

Tinc Cornell

English horn position at Boston Symphony Orchestra: $250,000 and up

benches, even trees. Princetonians can visit the Mrs. C. Otto von Kienbusch ladies' lounge in its art museum, read in the Ralph Buchanan Albaugh '43 library carrel, collapse in the Henriette Foote Armour infirmary bed, admire the Frederic Fox '39 dogwood, and study at the campus water resources lab beside the John Nicholson '22 experimental flume.

Indeed, schools everywhere are mounting awesome fund drives. Stanford is aiming for $1.1 billion in the next three years. The University of Michigan hopes to find $75 million by the end of its fiscal year this June. Oxford, beset by Thatcherian budget cuts, is revving up its first fund drive in its 800-year history.

Group or corporate backing for campus chairs, once rare, is increasingly widespread—and increasingly international. The University of Illinois at Chicago now has the first U.S. chair of Lithuanian studies, courtesy of a worldwide fund drive organized by the city's Lithuanian community. Japanese corporations have been especially quick to fund research efforts at American institutions. At MIT, 16 chairs in such fields as materials science, media, finance and computers have been endowed, at approximately $1.5 million each, by companies that include Mitsubishi and Toyota. In California, Hitachi and its affiliates are underwriting a $1.2 million Stanford chair and have spent $12 million to build a new U.C.-Irvine biotech facility. After 40 years, the building will be turned over to the university.

Endowment price tags vary from campus to campus. A chair at Harvard runs $1.5 million; a university professorship costs $2 million. Florida State University's matching-funds program established the Burt Reynolds Eminent Scholar Chair in Theater, for which Reynolds kicked in $600,000. The chair is currently held by eminent *Hollywood Squares* fixture Charles Nelson Reilly.

Or you might consider custom-tailoring a scholarship, with narrowly

defined conditions. Some schools offer scholarships only for children of employees or colleagues, or for residents of a particular hometown, etc. Colleges have learned to take such provisions in stride. According to *Alma Mater* (Peterson's Guide, $9.95), by Don Betterton, there are scholarships for nonsmokers, people named Murphy, Iowa farm girls who have played in the state basketball tourna ment, and anyone born in Matapar Mass. There's even a generous fun for horticulture students with no bet ter than a B average. ■

The games they play in D.C.

Two things most people should never see made: sausages and laws.

—An old saying

Law- and policymaking are now so maddeningly complex that instruction in finding your way through Washington's mazes has become a growth industry.

The Brookings Institution, the granddaddy of government tutors, has been offering classes and seminars to corporate executives for a quarter-century. Its "Understanding Federal Government Operations" conference, 25 sessions over six days, is especially popular. The students come from many facets of corporate life: tax advisers, R&D managers, controllers, corporate communications directors, you name it. One recent attendee, for example, George Senkler, 43, is a technical manager in Du Pont's chemicals and pigments department. Senkler has no interest in lobbying or being a congressional witness, but wanted to learn how to respond intelligently if Du Pont's governmental affairs people request information from him.

The speaker list can be impressive. During one Brookings seminar last June, for example, the speakers included then-Senator Dan Quayle, Susan Liebeler, former head of the U.S. International Trade Commission, and Noel Augustyn, administrative assistant to Chief Justice William Rehnquist.

The Brookings Institution's conference on government operations is part of a series. Conference-goers get the inside story from members of Congress and congressional staffers, federal judges and their administrative assistants, officials from executive offices and regulatory agencies, lobbyists, scholars, even the press.

Most meetings are held on-site in federal offices—from the Treasury to the Pentagon to Capitol Hill. Each lecture lasts about an hour, of which 40 minutes is set aside for questions and off-the-record discussion.

Cost of the Brookings seminar, which runs 12 times a year, with 35 to 40 executives at each conference, is $2,495 a person, including meals and local transportation.

Another school for federal success is the Washington Campus, a nonprofit consortium of 16 universities started in 1978 by L. William Seidman, now chairman of the FDIC. The Campus originally set out to teach graduate business students how Washington functions. But corporate interest was so strong that last year it ran 32 programs for corporations and associations including two weeklong conferences open to all comers.

Course speakers might be Senator Bill Bradley (D–N.J.), Federal Reserve Vice Chairman Manuel Johnson or FDA Commissioner Frank Young. Seminars are held all over town.

The Washington Campus tailors its programs to specific corporations' needs. Dow Chemical executives heard plenty from the Environmental Protection Agency, for example.

The costs of the executive programs vary, but the open enrollment courses are $2,300 including meals and local transportation.

Besides these "big picture" seminars, there are classes presented by the *Congressional Quarterly*, owned by the *St. Petersburg Times*. *CQ* began its seminars in 1980 and now offers some 65 nuts-and-bolts half-day and one-day seminars a year with titles like "Working with Congressional Staff," "Understanding Federal Budgeting," "Congress and the Legislative Process." It also runs an annual election conference focusing on the policy implications of recent elections. Some regular speakers include Walter Oleszek, a congressional scholar-in-residence at American University, an budget expert Allen Schick, a visitin scholar at the Urban Institute. *C* seminars run from $165 to $395.

Many Washington organizations o fer programs for their members or fo private groups. Since 1973 the Ameri can University's School of Public Af fairs, for instance, has been contract ing out to corporations such as IB and General Electric for private pro grams on the inner workings of th federal government.

State governments can be just a tricky to deal with as the federal gov ernment, especially since so muc policymaking has shifted t the state capitals during th Reagan era. With that i mind, in December *CQ* gave seminar in Tallahassee on th Florida legislature, with an other planned for this month

Where there is a market, o course, there is likely to b competition. According to th *State Legislative Sourcebook*, a least 15 states now have orga nizations regularly offerin seminars on state govern ments. Lynn Hellebust, wh publishes the *Sourcebook*, run three seminars on the Kansa legislature alone in Topek every year. And the *California Journa* one of two organizations that tutor i California, holds about four seminar a month in Sacramento and aroun the state.

These organizations regularly offe programs on dealing with government

The Brookings Institution, 177 Massachusetts Ave., N.W. 2003 202-797-6284.

The Washington Campus, 2620 St., N.W. 20007; 202-337-0180.

Congressional Quarterly, 1414 22n St., N.W. 20037; 202-887-8620.

The *State Legislative Sourcebook* which has useful resource informa tion on all state legislatures, is avail able for $105 from Government Re search Service, 701 Jackson, Topeka Kans. 66603; 800-346-6896.

It may not be easy to find loca seminars. You can start your searc by calling the House and Senate lead ership offices and your state's cham ber of commerce.—**Neal Santelmann**

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When companies offer employees lucrative incentives to quit, they're letting the workers decide who should stay and who should go. Is that any way to run a business?

The hidden cost of golden handshakes

By Dyan Machan

FOR SOME COMPANIES determined to chop heads, "voluntary termination program" is the euphemism of choice these days. That's when an employee, lured by a big financial incentive, agrees to quit. Such incentives, usually offered companywide for limited periods of time, are widely viewed as a humane way to get rid of deadwood while avoiding legal hassles and the general ugliness of layoffs and individual firings.

Nearly one-third of the 1,134 companies responding to the American Management Association survey in 1987 said they would use such a plan to cut their work force. One in five reported firm plans to do so in the next year or so.

Such programs, unfortunately, rarely do the companies lasting good. Often as not, the offers encourage the company's most creative, risk-oriented and productive workers to leave and get new jobs, while those who have doubts about their ability to thrive elsewhere tend to stay on.

Since last summer, for example, IBM has offered a voluntary termination plan known as the "financial assistance program." Under this plan, certain headquarters employees get one month's pay for every year of service, extended medical and dental benefits for up to two years and reimbursement for retraining expenses. (In addition, employees at IBM's Boca Raton and Tucson plant locations get an automatic two years' pay and a $25,000 assistance payment.)

When IBM unfurled the plan on June 29, the company expected some 3,000 to 4,000 employees to leave by Dec. 31. In fact, about double that number have resigned, at a cost of $870 million—a charge of $270 million more to earnings than had been anticipated.

Who's been leaving? The list includes valuable talents like John Steuri, 49, an assistant group execu-

John Steuri, president and chief executive officer of Systematics, Inc.
IBM's offer was too good to resist.

Robbie McClaren

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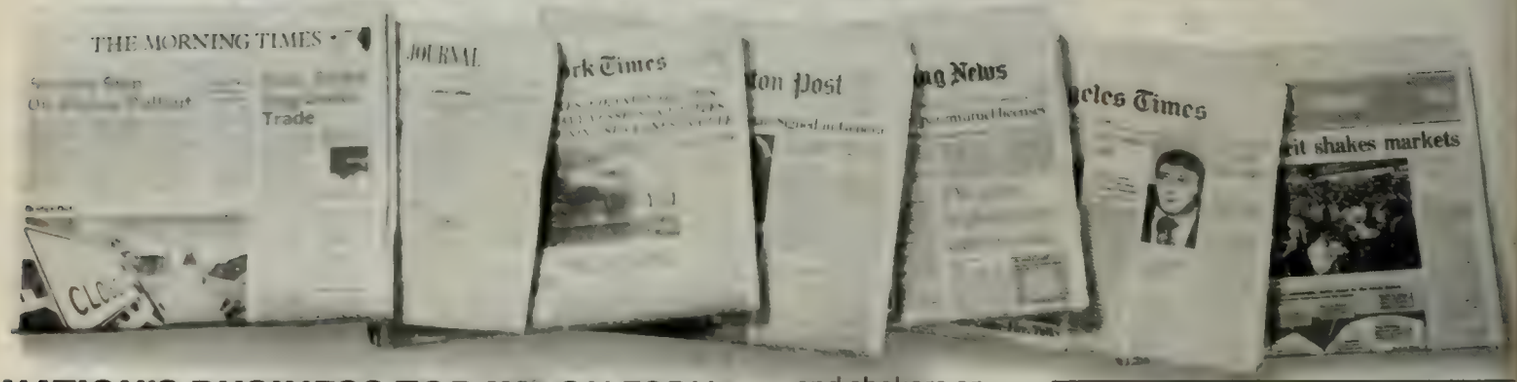

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Top Business News	6:30	7:00	7:30	8:00
Financial News	6:35	7:05	7:35	8:05
Small Business News	6:40	7:10	7:40	8:10
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
Internat'l Business Line		7:25		

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tive in U.S. marketing who also headed IBM Information Services, a profit center with 5,800 employees and $750 million in sales. For Steuri the offer IBM made was irresistible. His 24 years' service qualified him for nearly two full years of salary, or about $400,000. Separately, Steuri also exercised stock options worth something in excess of $200,000.

Steuri's forte is the kind of talent even first-rank companies never have enough of—a detailed knowledge of pricing strategies and proven expertise in bringing new products to market. Moreover, he had always wanted to run his own company. No surprise then that last October he cashed in to become president and chief executive of Systematics, Inc., a $180 million sales) computer company in Little Rock, specializing in supplying financial institutions with back-office computer systems. He started at

These "voluntary termination plans" encourage the company's most creative, risk-oriented, productive workers to leave. Those who doubt their ability to thrive elsewhere tend to stick around.

$300,000 a year in base salary, plus the potential of a 20% annual bonus if he meets certain revenue goals. The kicker that could make him a millionaire quickly is a package of stock options on 400,000 Systematics common shares, a fourth of which he can exercise this year.

Companywide plans work best when they are specifically targeted to get rid of excess workers in carefully defined categories or job functions. Consider Ford Motor Co., now embarked on an ambitious plan to cut its employees by 20% over five years. To do so, in 1986 the carmaker introduced an innovative termination plan that works in tandem with its business plan. After the company tries retraining and transferring employees and it still sees a surplus in an area designated to shrink—accounting, for example, or technical support—it targets the group. But instead of offering resignation incentives to the group as a whole, the plan places responsibility on individual managers to make offers to specific employees within the class. Ford has also made it clear that it won't retaliate against any employee who turns down the offer; so far Ford hasn't had any legal problems.

The Travelers Cos. has likewise implemented a voluntary separation plan with a safety catch. Although it offers its "voluntary separation option" to all employees in targeted functions, employees must apply and be individually accepted before they are permitted to quit. This program is driven not by a large-scale mandate to get rid of a percentage of employees but by a need to keep the bloat from accreting in the first place. Of the 9,400 who have been offered the program since last summer, 552 have been given approval to resign.

The need for voluntary resignation programs would be less urgent, of course, in a company that had a performance review system with real punch. In many companies, performance reviews become nothing but a mechanism for securing raises, allowing even mediocre performers to get ahead based on little more than seniority. Explains Dan Dalton, professor of management at Indiana University, "There's a tremendous stigma around individuals if they don't move up. So it becomes 'time for Jane to move up,' because she's been around a while and managed to stay out of trouble." Companies can avoid such bloat by promoting only people who really deserve it, and by regularly letting go those who don't. By definition, managers who won't or can't do this are not doing their jobs and should themselves be let go.

The fact that a company has gone through a purge is no guarantee that it won't need another. Robert Tomasko, an Arthur D. Little consultant and author of *Downsizing*, found in researching for a new book that over half the companies that implemented cutbacks earlier in this decade have since gained fat and now face the same expensive chore all over again. Says Tomasko, "Programs designed simply to slash head count don't guarantee a company will become more competitive, more profitable or even able to sustain the reduction."

To keep fat off after a slimming effort, companies may need to develop a bias toward getting things done on the outside. Bankers Trust shrank its employee base in the last 14 years by 200 employees while increasing earnings eight times and never having to engage in any sort of layoff or benefit program. How? One secret was to contract out certain staff functions such as switchboard and mailroom services to companies like Xerox Corp., which is interested in building those businesses.

The lesson here? In cutting away deadwood, pruning shears will usually serve better than chain saws. ■

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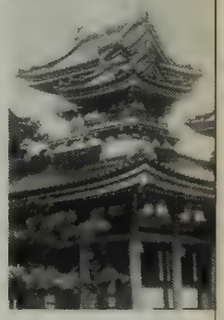

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Faces
Behind the Figures

Edited by Jason Zweig

From munis to money

Jodi Buren

United States Banknote President Stanley Kreitman
Paper securities aren't dead.

Stanley Kreitman, president of United States Banknote Co., is the largest printer of municipal bond certificates. Is his business going the way of the buggy whip? Paper bonds are being superseded by electrons glittering on a computer screen—"book-entry only" registration. (A third of munis are now issued in book-entry form.) So Kreitman and his partner, Chairman Morris Weissman, have moved into related markets: payroll checks for the U.S. government (700 million a year), food stamps (more than 1 billion a year) and traveler's checks.

But paper securities aren't dead. Many newfangled financial instruments—collateralized mortgage obligations, for instance—are so arcane that investors insist on owning them in certificate form. That, too, has now become a new line of business for United States Banknote. Result? Altogether, the company currently does some $80 million in sales, or more than three times its revenues when Kreitman and Weissman took the company private in 1974.

Kreitman, 57, worries about security—as a securities printer should. He points out that every company on the New York Stock Exchange must issue stock certificates with a finely engraved vignette of a human figure facing forward. The reason: Each figure bears a secret, precise pattern of raised lines that prevents counterfeiting.

Kreitman has his eye on yet another growth area: printing currency for Third World governments. Already printing money for the Dominican Republic and the Seychelles, United States Banknote also has bids out on new currency contracts for governments in Latin America and the Caribbean, where people sometimes have to carry money around in bundles the size of bricks.

Says Kreitman: "If you get a contract in a country like Peru, where inflation runs around 1,700%, that can be pretty good."—J.Z.

Pete's problem

Think you have a headache? Be glad you're not D.H. (Pete) Ankeny Jr. He's the 56-year-old chairman of Minneapolis' First Bank System ($24 billion assets), and he has just presided over the biggest quarterly loss in the bank's history. A giant bet on long U.S. Treasury bonds came up short, and First Bank liquidated $4.6 billion of its $7.5 billion portfolio in December, taking an eye-popping aftertax loss of $300 million.

The writeoff leaves an estimated $80 million unrealized loss still on First Bank's books, but there is a larger problem. The bank's reduced capital, according to one estimate, means that the institution will have to forgo making $5 billion in loans—a loss of some $250 million in potential income over the next five years. Hence, Ankeny's headache: how to get the bank back on the growth track.

Not only is aggressively hunting up new loans out, but Ankeny's hands seem to be tied elsewhere as well. He thinks First Bank's 50% interest in the Pillsbury building in Minneapolis is worth $50 million more than its book value, and he's been peddling it since late last year. So far, no takers. He plans to expand the insurance brokerage business, trust department and merchant banking division, but those operations will have to grow at a torrid pace to get the bank back on track. Ankeny's immediate subordinate, President Dennis Evans, resigned in November after taking responsibility for the bond catastrophe, leaving Ankeny to take on that job as well.

Lynne Kennedy

First Bank Chairman D.H. Ankeny Jr.
"Perfect people are very few."

Louis Psihoyos/Matrix

Mohamed Younes, chairman of Baring Brothers' U.S. corporate finance agency
"We want to sell advice, not securities."

First Bank remains a giant bank in a healthy geographical region, but its growth will be limited for years to come. How does it feel? "The buck stops here," Ankeny says resignedly.

Complaints about the quality of First Bank's management are still heard on Wall Street. "That's a natural reaction," says he. "Everybody would like to be perfect, nobody enjoys it when he's not. Perfect people are very few, and I'm envious of them." But he refuses to oblige those—chiefly stockholders, some of whom are suing over the bond loss—who would like him to step down. His answer, he says curtly, is no.—**J.Z.**

The sixth great power returns

Mohamed Younes, 50, is the Egyptian-born chairman of Baring Brothers & Co.'s U.S. corporate finance agency. Never heard of Barings? Ask your American history teacher. A British partnership founded in 1762, Barings was one of the first dealers in U.S. securities after the Revolution—and financed a nifty land deal, acting as go-between in the purchase of the Louisiana Territory. The Duc de Richelieu called Barings Europe's sixth great power, after England, France, Prussia, Austria and Russia.

But the private bank, still controlled by the Baring family, learned the dangers of risking capital a century ago. The Bank of England had to bail out Barings in 1890 after the firm almost choked to death on indigestible Latin American loans and sudden deposit withdrawals by Russia. Even in 1906 a Barings partner said trying to compete against big U.S. firms would be "silly and dangerous."

Today Barings is an aristocratic dwarf among the jostling giants of Wall Street, but it does not have to compete in size. Its impeccable pedigree attracts top-tier European clients like Britain's Associated Newspapers Group. Says Younes: "We want to sell advice, not securities."

And now Barings has returned to domestic corporate finance in the U.S. after an eight-decade absence. While others dive into giant mergers and acquisitions, Barings advises medium-size U.S. companies on mergers, restructurings and partnerships. In August Younes completed a $100 million joint venture between Nova Pharmaceutical and SmithKline Beckman. Three months earlier Dean Witter and Shearson Lehman had given up on the deal and moved on to greener but riskier pastures.

"Wall Street firms have grown so large they can no longer afford to spend time on anything but the biggest clients and the biggest leveraged buyouts," says Younes. One thing that Barings has learned as the centuries have rolled past: Patience is a virtue.—**Jack Willoughby**

Good-bye, Dali

Salvador Dali's death last month in Figueras, Spain leaves no heirs squabbling over his estate, as Pablo Picasso's passing did in 1973. Dali's wife, Gala, died in 1982. They had no children. It's expected that the bulk of the estate, whose value is estimated at more than $90 million, will pass to the Spanish government and the Dali Foundation, which run a museum in Figueras.

But at least one individual is already making out nicely, even though he may not get a cent from the master's will. Enrique Sabater, 50-ish, was once Dali's private secretary and financial adviser. Sabater owns a private company in Barcelona that holds an exclusive license to print posters and postcards featuring Dali's work, still popular everywhere and especially admired in Japan.

A former soccer player, Sabater won Dali's favor in 1974 by photographing him just as a fly landed on the painter's mustache. Delighted, Dali asked Sabater to work for him. Sabater ended up running the show, selling paintings and the reproduction rights to Dali lithographs. Although he has had little formal education, Sabater has a keen sense of business, and long ago set up several companies in the Caribbean tax haven of Curaçao to profit from the sale of reproduction rights. He missed his master's funeral.—**J.Z.**

Habans Sygma

Enrique Sabater with Salvador Dali
Making money from the master.

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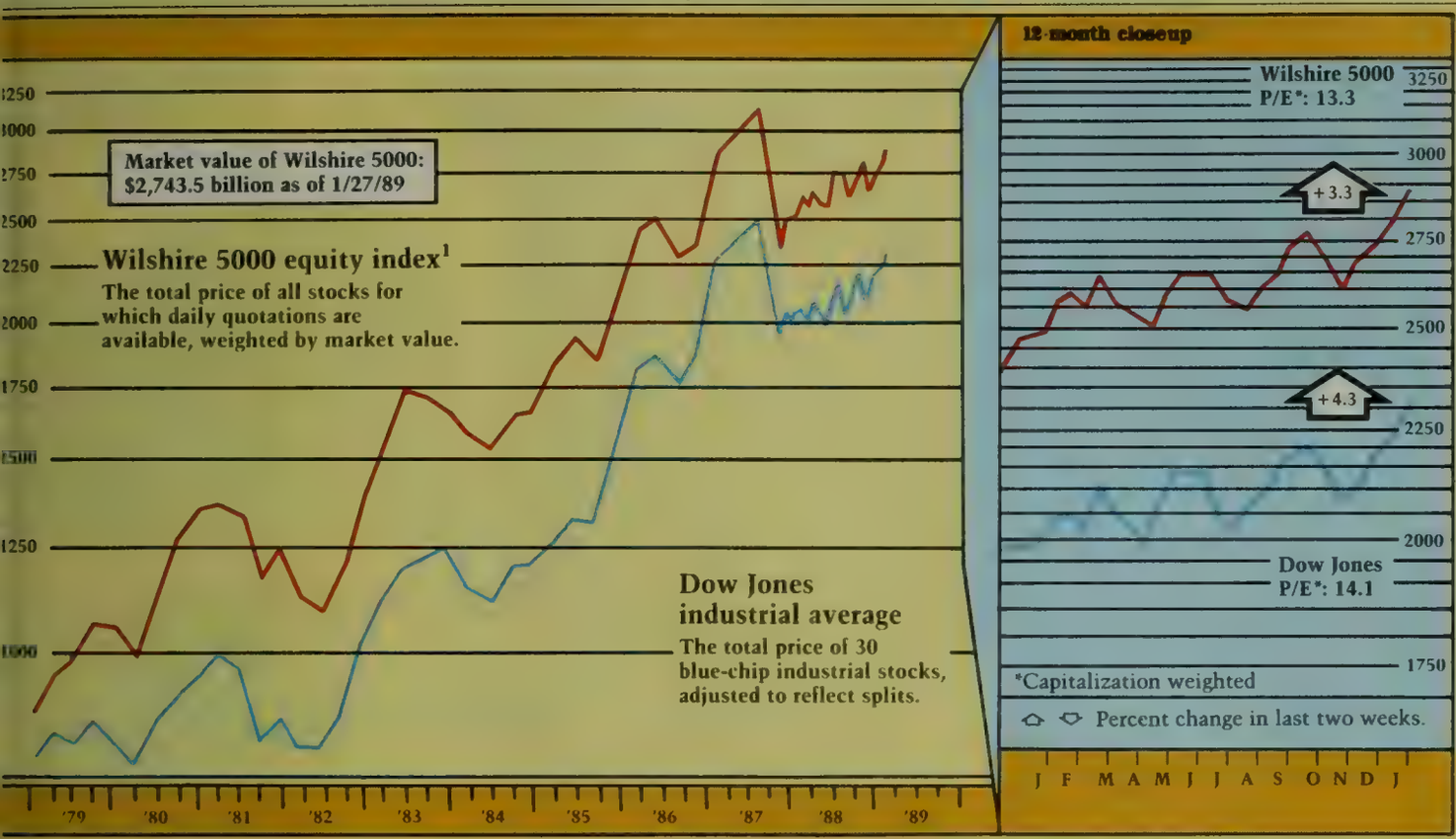
The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



The "breadth" factor. Gains posted by big, well-known stocks account for the Dow's steady rise in January and its close above 2300, a postcrash high. But on Friday, Jan. 27, when the Dow advanced 32 points, more than 600 NYSE stocks declined. Thus, while the Dow shot up 7.1% over the last four weeks, the New York Stock Exchange index of 1,800 common shares gained 5.5%. The American Stock Exchange and the over-the-counter market were up 5.1% and 4.3%, respectively.

Market technicians have a phrase for such divergences. "The market lacks breadth," they say, when one market segment moves significantly ahead of another. In the past such a sign has often indicated a near-term market top. Note, too, that in the last two weeks the Dow P/E jumped from 13.5 to 14.1. This means that the Dow's earnings yield (earnings/price) is down to 7.1%. Compare this with the 8.3% yield on a risk-free six-month Treasury bill. That lends some support to the technicians' theory.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	5.4	5.5	7.1	5.5	5.1	4.3
in last 52 weeks	14.7	13.9	18.6	14.3	19.5	15.5

Stock performance based on six key investor yardsticks[3]

Percent change	Company size		Volatility[4]		P/E multiple		Dividend yield		Growth profile[5]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	5.3	7.3	4.8	2.5	4.0	5.4	3.3	4.4	6.4	4.1	4.3	5.0
in last 52 weeks	17.5	13.7	23.9	7.7	35.1	18.2	3.4	26.1	15.4	14.2	24.4	3.4

Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. Equal weighted indices containing all shares with market capitalizations over $10 million. [4]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [5]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

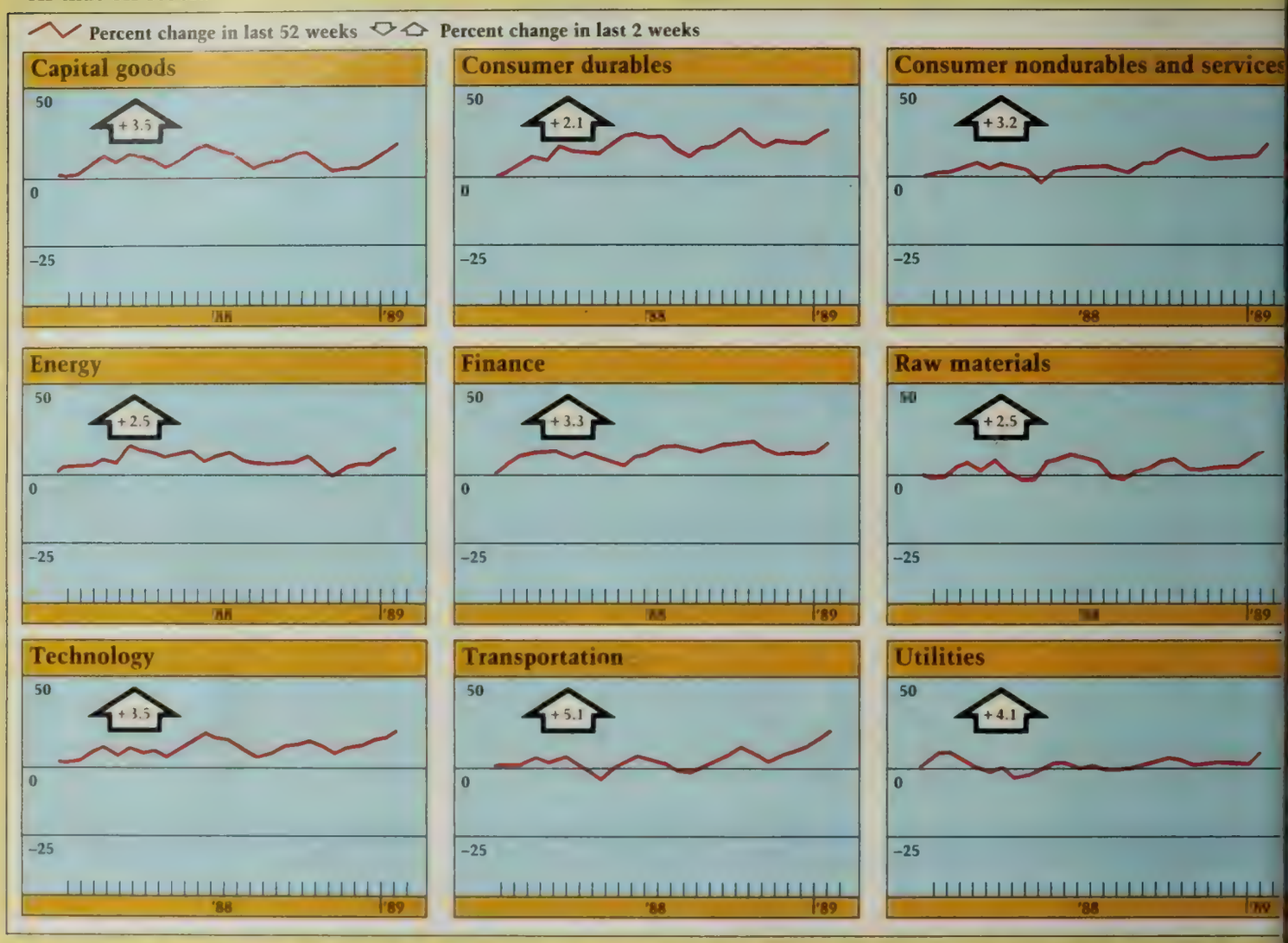
Note: All data for periods ending 1/27/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Takeover pressure in energy? Texas Eastern, a diversified firm built around a gas pipeline serving the Northeast, shot up 59% in the two weeks to Jan. 27 on Coastal Corp.'s buyout offer of $42. Texas Eastern closed $6 above Coastal's bid. The truce Carl Icahn reached with Texaco on Jan. 28, however, takes some of the takeover pressure off that oil stock.

The leading sector for the fortnight was transportation which gained 5.1%. Flightsafety International, Consolidated Freightways, Delta and NWA were up more than 9%. The weakest group was consumer durables, which rose only 2.1%. Hillenbrand Industries, a maker of caskets and Goodyear Tire & Rubber pulled down the performance of this sector with losses in excess of 7%.



What the Analysts Think

Prices rise, estimates fall. While investors were bidding up share prices to postcrash highs, analysts were reducing 1989 earnings estimates for five of the nine Wilshire sectors. Transportation, the best-performing sector over the last two weeks, suffered the largest estimate cut, 0.9% decline. Consumer durables' estimate rose 1.3%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.24	12.6
1989 estimates	3.95	10.3
1990 estimates	NA	NA

NA: Not available

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Consumer durables	$4.89	11.4	1.31%	2.15%
2	Capital goods	3.06	12.7	0.26	0.99
3	Raw materials	3.50	9.3	0.24	0.57
4	Utilities	3.14	9.9	0.19	0.13
5	Energy	3.05	12.2	–0.03	0.04
6	Consumer nondurables	2.77	13.0	–0.12	–0.22
7	Finance	3.76	7.9	–0.28	–1.06
8	Technology	3.24	11.0	–0.55	–0.72
9	Transportation	2.85	10.3	–0.92	–0.31

Earnings projections are capitalization weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Broker Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/27/89. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

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The old-line managers at Seligman did pretty well for themselves. In order to do as well, the new managers will have to deliver better results for fund shareholders.

New broom at Seligman

By Richard Phalon

THE STOCK PICKERS at J&W Seligman, a fund adviser and brokerage in New York City, came upon a beaut eight years ago. They invested $3.3 million in a nice little company and recently sold their position for $53 million, for a very agreeable return of 16-to-1. The investment in question? The fund advisory firm itself.

Too bad for shareholders in the Seligman funds that they didn't share that fabulous return. Instead, the funds were on the selling side eight years ago. Until January 1981 Seligman's funds jointly owned the company that managed them, in a sort of cooperative arrangement similar to the organization of the Vanguard Group. Then the executives at Seligman set up a new firm to take over management of the funds.

They got a nice little franchise: advisory contracts for the U.S.' largest closed-end equity fund, Tri-Continental Corp., and for an assortment of open-end funds, pension and individual accounts. Total assets under management today: $6.7 billion.

After the sale this January, that franchise belongs to a leveraged buyout group of Seligman directors headed by William C. Morris, 50. Morris is a veteran investment banker who spent 17 years at Lehman Brothers but left when Shearson took over the firm.

Morris is taking over a nice wad of assets, but not much of a performance record. The five stock and balanced funds that have been around over the past three market cycles (since February 1978) have lagged the market by an average of more than a percentage point a year. Seligman's bond funds, most of them fairly new, have as a group lagged the market over the past three years, although they did well in the 1988 bull market.

In a market where investors are deserting mutual funds, the new owners of J&W Seligman will have their hands full trying to hold on to assets. Among their troubles:

- A shrinking share of the money market fund business. In the past five years assets of money market funds in the U.S. have climbed 70%, to $277 billion. At Seligman they're off 15%, to $355 million.
- Attrition in the management firm's biggest open-end equity fund, the $500 million Seligman Growth Fund. As recently as 1984 its assets were $718 million.
- A shrinking share of the institutional and personal money management business. Five years ago Seligman reported running $1.6 billion of such assets. The current total is $2.1 billion—an increase of only 31% in a period when total pension fund assets have expanded 65%.

Steve Hill

Seligman's William C. Morris
More marketing needed.

Offsetting those debits are some demonstrable strengths. Morris got one of the oldest names in money management—J&W Seligman & Co. was founded in 1864. The $1.3 billion Tri-Continental Corp. alone last year generated $4.5 million in management fees and more than $600,000 in commission income for Seligman's brokerage arm. Further, the firm has its foot in the tax-exempt door with a cluster of new funds that produced over $1.2 billion of assets over the last five years.

Those strengths helped Morris swing the $29 million in unsecured loans it took to buy out the 43 employees and former employees that participated in the first buyout. Fred E. Brown, 75, who is retiring as chief executive after heading the firm for more than a quarter of a century, had pushed the restructuring as a way for Seligman to raise the capital that it needed to hold down costs, create new open-ends and attract money management talent.

The inside stockholders, including Brown, are taking $52.6 million in cash and subordinated notes out of the Morris-led buyout. The financing is a tribute to the economics of the fund management business. With no hard assets to look to as collateral, the insurance company lenders are persuaded that Morris can generate enough profit to pay down debt with room to spare. In an industry where profit margins of 20% or more are routine, the odds are clearly on Morris' side.

It will take more than just a bit of gentlemanly tinkering, though, for Morris to make his numbers with style. Along with the Seligman image comes an organization shaped over more than a quarter-century in the image of Fred Brown.

"Fred Brown has a feast-or-famine mentality typical of the brokerage community," says one former Seligman executive. "When things were so good my grandmother could make a fortune selling mutual funds, he would beef up the sales budget. When things got bad and you needed every distributor you could find, he'd cut the budget."

Brown says he is now totally out of management, although he still has a piece of the company, and promises no second-guessing. Morris' major task is to bring more assets under management. What will that take? "This company has got to do more marketing, period," says Morris. The marketing would be an easier task if the managers sharpened their investment performance.

In an already tough market, a mediocre performer is a hard sell. ■

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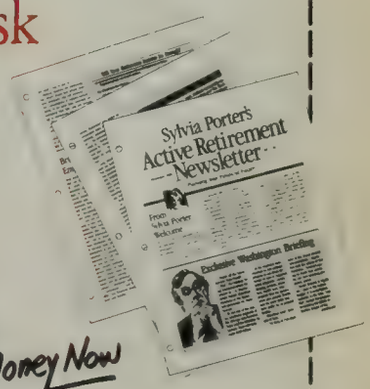

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The Forbes/TUCS Institutional Portfolio Report

Edited by Steve Kichen

DESPITE A FOURTH-QUARTER SLUMP, professional money managers made a nice recovery from the crash and beat the market last year.

Wilshire Associates' Trust Universe Comparison Service monitors $390 billion of pension fund assets, 22% of the estimated $1.8 trillion invested in U.S. pension funds. TUCS reports that for 1988 the institutions racked up a total return of 18.3% on stock portfolios, which surpasses both the 17.9% return on the Wilshire index and the 16.8% return on the S&P 500.

But the pros have been lagging lately. Two of every three money managers monitored by TUCS underperformed the S&P 500 in the fourth quarter. During the quarter the average return on institutional stock portfolios was 2.2%, against 2.3% for the Wilshire index and 3.1% for the S&P 500. Even with that 2.2% total return, however, equities outperformed all other investment vehicles in the last quarter. Fixed-income investments had a 0.9% return, while risk-free cash earned 2.1%.

Government paper and other liquid investments accounted for 10.9% of institutional portfolios at quarter's end. This is the highest level since the September 1985 quarter, when it stood at 11.5%. Institutional money manager James Awad, who manages $500 million for BMI Capital in New York, thinks this will soon change. "Everyone is underweighted in stocks and will scramble back into the market because of their fear of underperforming," he says. If the deficit begins to shrink without new taxes, as President Bush says it can, Awad thinks "the market will surprise a lot of people and go through its old highs."

The best-performing style of equity management for 1988 was "value" management. Such managers focused on larger companies with underlying assets that weren't fully reflected in the stock's price. Returns by style are shown below in the table "How different managers performed." The table at right, "Segment performance and cash flows," shows where professional managers are moving their assets. It indicates that corporations are continuing to pull money out of their pension funds. (More precisely, they put money in for current employees, but not as fast as it is being drawn out by retired employees.) Total institutional holdings declined 3.9% over the course of 1988. The biggest drop was in fixed-income securities, which fell 5.7%. The only segment to post any growth was cash, which rose 6.3% for the year.

How different managers performed

Manager style	Total return[3] recent quarter	12 months	24 months[4]
Diversified	2.4%	17.5%	10.7%
Growth	1.2	11.4	9.2
Growth—emerging	0.9	20.2	10.0
Market timer	1.7	13.5	10.4
Sector rotator	2.4	[illegible]	10.6
Value	2.5	[illegible]	10.8

Where the institutions put their money

Segment	—Portfolio weighting— most recent quarter	previous quarter
Equity	60.8%	60.0%
Fixed income	27.7	28.6
Cash and equivalents	10.9	10.8
Convertibles	0.1	0.1
Other[1]	0.5	0.5

Equity portfolio characteristics

	Institutional portfolios	Wilshire 5000
Price/earnings ratio	14.2	11.9
Dividend yield	3.4%	3.3%
Beta[2]	1.05	1.07
Price/sales ratio	1.29	1.34
Price/book ratio	2.86	2.40

Segment performance and cash flows

Segment	—Most recent quarter— median total return	shift in institutional holdings	—Latest 12 months— median total return	shift in institutional holdings
Equity	2.2%	–0.4%	18.3%	–3.5%
Fixed income	0.9	0.2	7.7	–5.7
Cash equiv	2.1	–0.3	7.8	6.3
Convertibles	0.5	–1.7	14.3	–2.6
Other[1]	1.8	0.2	6.0	–0.5
Total	1.6	–0.5	13.2	–3.9

Position changes: These securities had the greatest relative change in holdings over the last quarter

Security	Increase in holdings	Total quarter return	Security	Decrease in holdings	Total quarter return
IBM	5.0%	6.6%	Wal-Mart	–3.0%	–2.6%
Exxon	4.5	–0.4	Apple Computer	–2.7	–6.7
Citicorp	4.1	0.5	Kroger	–2.6	–4.8
American Brands	3.0	25.5	Nynex	–2.2	1.5
Philip Morris	2.2	6.5	BellSouth	–2.0	–2.5
Johnson & Johnson	2.2	–0.3	Bell Atlantic	–1.5	0.2
General Electric	2.1	4.1	US West	–1.5	0.0
Minn Min & Mfg	2.0	–2.8	Rockwell Intl	–1.4	–1.4
Dow Chemical	1.8	1.7	Quaker Oats	–1.3	–1.3
Am Home Prods	1.8	5.4	PPG	–1.3	–5.6

[1]Real estate, foreign investments, venture capital, guaranteed insurance contracts. [2]A measure of risk. A stock with a beta of 1.00 tends to move up or down at the same rate as the S&P 500. [3]Includes all forms of investment income. [4]Figures for 24 months are annualized.
Note: Data for quarter ending 12/30/88. Prepared by the Trust Universe Comparison Service (TUCS®), a service of Wilshire Associates, Santa Monica, Calif.

Vhere the institutions are—and aren't

Most overweighted relative to Wilshire 5000			Most underweighted relative to Wilshire 5000		
	% of			% of	
ecurity	institutional universe	Wilshire 5000	Security	institutional universe	Wilshire 5000
hilip Morris	1.6%	1.0%	Exxon	1.1%	3.0%
iticorp	0.8	0.4	IBM	2.9	4.3
merican Brands	0.6	0.3	Royal Dutch Petroleum	0.2	1.5
ICI Communications	0.4	0.1	British Petroleum ADS	0.1	1.2
Varner Communications	0.5	0.2	General Electric	1.4	2.3
omputer Associates	0.3	0.0*	AT&T	0.8	1.6
pple Computer	0.4	0.2	BellSouth	0.4	1.1
ompaq Computer	0.3	0.0*	Glaxo Holdings ADR	0.0*	0.7
lcoa	0.4	0.2	EI du Pont de Nemours	0.5	1.2
IN Broadcasting	0.3	0.1	Imperial Chemical ADR	0.1	0.6

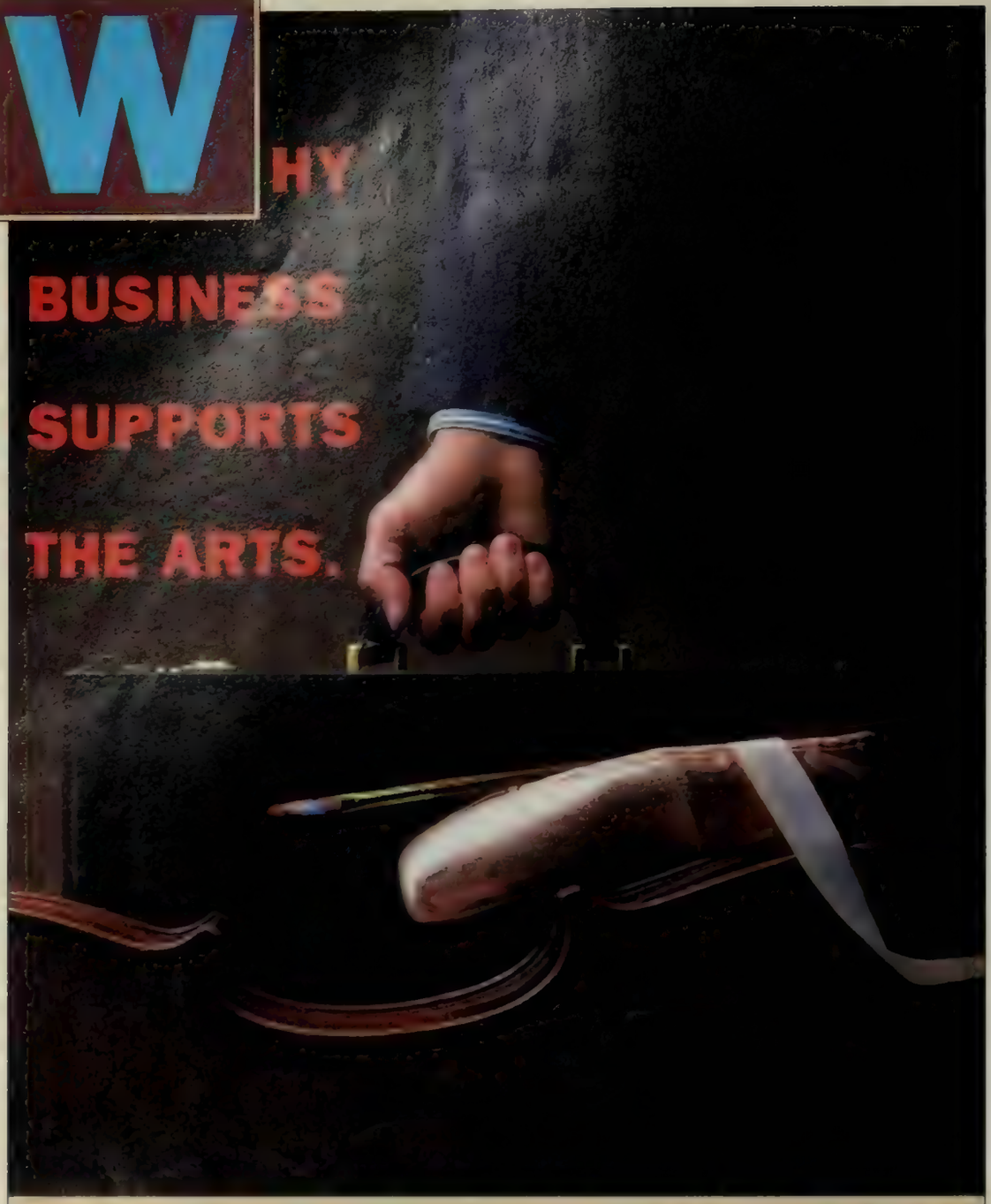
Exact figure is less than 0.05%.

ght blue chips. Even though institutions bought IBM, GE d Exxon last quarter, these stocks remain underweight- in the institutional portfolio. While their combined rrent market value of $176.6 billion amounts to 9.6% of e Wilshire 5000's value, they account for 5.4% of the rtfolios in the TUCS survey. To bring the weight of these stocks in the TUCS portfolio in line with their weighting in the Wilshire index, the institutions would have to buy another $3 billion of these issues. In the fourth quarter the institutions bought diversified tobacco stocks Philip Morris and American Brands, and took profits in RJR Nabisco. Apple and Compaq Computer were also favorites.

ector activity and top holdings

% of institutional portfolio: ■ most recent quarter ■ previous quarter

apital goods	5.7% 5.8%	Consumer durables	3.4% 3.9%	Consumer nondurables	31.1% 30.4%
	total return		total return		total return
eneral Electric	4.1%	General Motors	13.0%	Philip Morris	6.5%
aterpillar	11.0	Ford Motor	–0.1	Merck	0.7
merson Electric	2.2	Chrysler	8.3	Johnson & Johnson	–0.3
Vestinghouse Electric	0.7	Goodyear Tire & Rubber	–11.1	Wal-Mart	–2.6
eere & Co	8.9	Whirlpool	–0.4	Coca-Cola	2.7
nergy	7.6% 7.3%	Finance	12.4% 12.6%	Raw materials	14.8% 14.9%
	total return		total return		total return
xxon	–0.4%	American Express	–3.5%	Dow Chemical	1.7%
mocu	2.9	Citicorp	0.5	Monsanto	6.5
tlantic Richfield	5.6	American Intl Group	2.6	Waste Management	–0.6
obil	8.2	General Re	–0.4	EI du Pont de Nemours	9.2
hevron	6.4	JP Morgan	–6.2	Alcoa	6.8
echnology	15.7% 16.6%	Transportation	3.1% 3.7%	Utilities	6.2% 4.8%
	total return		total return		total return
BM	6.6%	Union Pacific	8.5%	AT&T	11.7%
igital Equipment	4.8	Burlington Northern	12.1	GTE	3.6
ewlett-Packard	6.9	Norfolk Southern	8.0	Pacific Telesis	3.3
oeing	–4.9	AMR	12.9	BellSouth	–2.5
ICI Communications	10.4	Federal Express	4.7	Southwestern Bell	1.6



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Some muni unit trusts are quoting fat yields and holding out the hope of appreciation. But sometimes there's less appreciation than meets the eye.

TAX-FREE UNIT TRUSTS

By Ben Weberman

Unit investment trusts specializing in discounted tax-free bonds have become one of the more popular products in the business. They seem to have a lot going for them: a good current yield, the prospect of capital appreciation when a discount bond is paid off at par, and the presumption of good call protection, since an issuer doesn't usually call in bonds trading below par. Why pay off at 100 something that the market says is worth only 90?

Sounds good, but there are some serious drawbacks. The yield could be overstated, and the fact that a unit trust with a $1,000 par value is priced at $750 is no protection whatever against early calls of the bonds in the trust.

Calls are bad for bondholders because they turn the roulette wheel of interest rates into a can't-win game. If rates go up you're stuck with a low coupon. If rates go way down, you don't come out ahead because the bond is redeemed early.

Low-coupon bonds, trading at a price well below par, offer considerable protection against redemption well before maturity. Suppose, for instance, that you own a 6% coupon long-term muni. With market rates more like 7.5% these days, the bond will trade at a discount—a price of just over 82 cents on the dollar, for example, would give it a 7.3% current yield and a 7.5% yield to maturity. Rates could go down a full point and the issuer still isn't going to call the bond early. Unless there's a terrific rally, your 7.5% yield to maturity is locked in.

But there's a world of difference between a low-coupon, discount bond and a discount unit trust. The trust could be stuffed with zero coupon bonds, for instance. Unlike coupon issues, zeros typically are callable at prices way below par value. And when rates go down, those zeros do get called. You're back in the can't-win casino.

How does this work? Look at the Clayton Brown & Associates Discount Insured Trust, Series 3 portfolio. This unit trust came to market last September with $13 million principal amount of bonds in the trust. (That's small, like most unit trusts, but brokers are selling a lot of unit trusts. The Investment Company Institute counts $86 billion of bond unit trusts outstanding.) The principal amount, or par value, was listed as $1,000 per unit. The portfolio's market value, calculated from the underlying bonds' bid prices, was $735 per $1,000 of par value. Even after a sales commission brought the price to the public to $773, it looked cheap.

But that $227 discount was a mirage, thanks to a heavy dose of zero coupon bonds in the portfolio. The zeros could be redeemed early. Meanwhile, the current yield of 7.55% was made unsustainably high, via some high-coupon bonds priced at a premium. Yield to first call on the Series 3 portfolio's high-coupon bonds: only 7.43%.

Readers of this column will remember that premium bonds are an old trick for doctoring yield. Premium bonds are those that trade above par, which means the investor may pay $1,100 for a bond that will be worth only $1,000 at maturity. The trick lies in counting as yield the full coupon, even though it should be offset by some allowance for the inevitable erosion of principal.

Last July the Securities & Exchange Commission outlawed such yield gimmicks. But the ban applies only to open-end funds. Clayton Brown is by no means the only unit trust sponsor taking advantage of the loophole. The ICI is working on a proposal to close the loophole.

Thomas Vaughn, portfolio manager at Clayton, says: "The object was and is to come up with a mix of coupons that will provide a decent rate of return with potential for capital appreciation to the investor."

Some capital appreciation. In a market that is rallying strongly, holders of the Clayton Series 3 have seen only meager gains. Since September the muni market is off almost half a point in yield, which translates into a rise in price of maybe 3 points on a long bond. But the Series 3 bid price has climbed less than a percentage point, from $735 to $740. Figure in the sales commission and the buyer is under water. Reason: Of the 11 portfolio holdings, 8 are callable.

There's another, more subtle game being played with this odd brew of zeros and premium bonds. Capital losses on premium bonds tend to occur early. Capital gains on discount bonds occur late. To lump them together to get an overall gain is to mix apples and oranges. A dollar of loss in 1995 is simply not offset by a dollar of gain in 2004.

Not all discount unit trusts are so flawed. Van Kampen Merritt, for instance, brought a $6 million discount issue to market in December with a much more plausible portfolio whose current yield of 7% stands a better chance of surviving for a long while. But even Van Kampen, whose product is priced at $847, is trading on the specious attraction of distant capital gains. Consider this arithmetic: A 30-year $1,000 bond with a 7% current yield and a price of $850 picks up only 17 basis points of yield to maturity from the capital gain. ■

Ben Weberman is a contributing editor of FORBES magazine.

All too many investors lack patience. On a temporary setback they will abandon an adviser or a method that did well.

HOW TO GET WHIPSAWED

By David Dreman

One of the peculiarities of markets—of human nature, really—is that most investors don't learn from past mistakes. I'm not talking only of classic blunders where masses of people get swept along in a delusion, as in tulipmania or in the go-go markets of the late Sixties. I'm talking about everyday errors repeated constantly. It seems you can correct a golf slice or improve a bad tennis serve, but in markets, no matter how much time or experience most investors have, they repeat their flubs time and again.

An example? Investors repeatedly jump ship on a good strategy just because it hasn't worked so well lately and almost invariably abandon it at precisely the wrong time.

If a method has worked well over the years and you are comfortable with it, stick to it through the period it's not doing great, even if it's for as long as a year or two. Sure, it's ridiculous to think that any strategy is going to work every quarter or every year. Superior investment results aren't achieved on a quarterly or even an annual basis.

Yet, ridiculous or no, that's what investors expect. People stay with an investment approach or investment adviser only so long as superior results are produced. Either will be abandoned at the first sign of faltering for a temporarily winning method or an expert on a hot streak.

This human failing is a serious problem for investment professionals. They may make good profits for people for years and then, when they hit a bad streak, face disgruntled clients who demand improved results pronto. In these circumstances a manager is often caught between what he believes he should do and his survival.

John Templeton is a legendary value manager whose record is almost unmatched over the decades, but even he has had occasions when his stocks have underperformed the averages for long periods of time, in several cases for up to four years, before surging ahead. But people who deserted him in his poor periods have mostly lived to regret it.

In the frothy markets prior to the Oct. 19, 1987 crash, value—and particularly low-P/E investing—performed only so-so, while many flashy styles tore up the track. Impatient folks dropped low-P/E investing for some hot approach. But last year was a sensational period for followers of this method, producing returns sharply above those of the averages. Many of those people with short patience spans who dropped the low-P/E approach in 1987 got whipsawed, taking a beating in the crash and then missing the bull market in value that followed within months.

Another error costly to investors is the tendency of people to flock to the latest investment miracle worker—last year's or last quarter's hot performer. Many of the hot performers are market timers, and evidence collected over the years shows that almost no one can make superior timing calls over even two market cycles. Joe Granville had legions of followers before bombing out. A well-seasoned technician won instant superstar status for her October 1987 call to get out of the market. For a while all eyes were upon her. But in 1988 she gave back almost all of her 1987 gains by going in and out of stocks numerous times. Moral: Today's media hero is too often tomorrow's flop.

If you were a value investor concentrating on low-P/E stocks you may not have had tall tales to tell in the wild summer of 1987 but you survived the crash and came back nicely in 1988. I think you will do well again in 1989. Many companies with good growth records are trading at low P/Es because of the continued skittishness of the market. A secondary push for these stocks will come from continuing merger and leveraged buyout activity. True, the pace of takeovers may slacken some this year, but it still should prove significant. Low-P/E stocks should again be among the big beneficiaries.

Here are three such stocks that look attractive:

In the face of expert predictions that *Ford Motor* (52) would have a down year in 1988, the company's earnings have moved ahead steadily and should be 25% above 1987's. Even if auto sales decline moderately in 1989, Ford's earnings should not be off by more than 5% to 10%. The stock is dirt cheap, trading at a P/E of 5. Cash-rich, Ford has also just increased its dividend again by 25%, and yields 5.7%.

Royal Dutch (59) is the second-largest international oil company. Well-managed, RD has displayed one of the best earnings records among the internationals. In spite of its performance, the company is trading at a below-industry P/E of 8 and yields 6.1%.

Tandy (39) operates Radio Shack and is a major producer of personal and desktop computers. Earnings should increase 10% this fiscal year (ending June 30) and at a faster clip in the next fiscal year, as Tandy accelerates the growth of its distribution network. The stock trades at a price/earnings multiple of 11 and yields 1.5%. ■

David Dreman is managing director of Dreman Value Management Inc., Investment Counsel, New York, and author of The New Contrarian Investment Strategy

This year could see a spikier stock market with more chances for quick profits—and possibly even quicker losses.

DEAR GEORGE . . .

By Ann C. Brown

. . . For the sake of a kinder and gentler stock market, I, for one, hope you will throw your not inconsiderable enthusiasm and energy into fighting the wars against drugs, illiteracy, environmental abuse, homelessness, inequality and wasteful government spending, and leave economic activism in the capable hands of Alan Greenspan and his colleagues at the Federal Reserve. This is a time for fine fine-tuning on the part of our central bankers—not for Draconian measures by the newly elected and appointed, who may mistakenly think they are where they are because of promises to swiftly eliminate the budget and trade deficits and to restore the dollar to its former glory.

The fact is that a Republican Administration and a Democratic Congress were returned to office because a majority of the populace is satisfied with the status quo. Despite its many negatives, the budget deficit helped pull the nation out of recession and created millions of new jobs. The trade deficit resulted from policies that made available to Americans sought-after imported cars, electronics and apparel, while at the same time helping to keep inflation low. And the decline in the dollar stimulated foreign demand for U.S. products and services.

Your predecessors realized that the budget deficit was too large, the trade imbalance too wide and the drop in the dollar too steep, and took steps to right these excesses. Gramm-Rudman legislation now is in place to curb government expenditures over income; effective pressure is being exerted on Japan and other exporting nations to further open their home markets to U.S. goods; and the dollar is bottoming out, as our nation adjusts to its new role in a wealthier, more interdependent world. Let these forces have an opportunity to work their way through the system before proposing new medication that might kill a recovering patient.

You will have your hands full trying to bail out the savings and loan industry for up to $100 billion without raising taxes. (I hope you will consider this a one-time charge against circumstances and practices that allowed things to go from bad to worse and not as an ongoing item in the budget deficit.) Call a duck a duck and propose that the Treasury issue "S&L Bailout Bonds," which would be retired over time by specific assessments on the S&L industry. After all, states and municipalities have been able to sell bonds for specific purposes. Why not the federal government?

There are those who say that you have a good chance of being this generation's Herbert Hoover. That the economy is too good and has only one way to go. We both know there will be a slowdown. No doubt about it. That it will be a shutdown like the early Thirties—no way. We have learned some things from experience. And, if we haven't learned enough, ours is a different kind of society—a postindustrial, nonagrarian, internationally involved one, an economic entity that functions today more like a dimmer switch than like yesterday's on/off button.

Until recently, the broader stock market has mostly marked time. To be sure, there have been worries about what a change of leadership at the White House will bring. But your basically solid and centrist Cabinet choices should shore up confidence as to the tone and direction of your Administration.

The stock market leadership has done decidedly less well in assuring individual investors that they will receive fair and equal opportunity and that the trading innovations that exacerbated the crash of 1987 have been emended. Furthermore, additional insider trading scandals are coming to light and are likely to dominate financial headlines for the next several months, causing more than the usual amount of money to remain on the sidelines.

This year could see a spikier stock market with more chances for quick profits—and quicker losses. Whenever stock brokerage firms emphasize the results of equities as long-term investments for the little guy, you can bet most of the money will be made by the big fellows trading short term.

As you know, the first year of a new Administration is historically disappointing for the stock market. After all the ups and downs, 1989 could be no exception. But there are, as usual, a number of attractive equities that offer above-average appreciation potential.

I know that by law you and your family have to put your assets in blind trusts. However, I hope your trustees are looking at what one might call "new breeze" stocks—*King World Productions* (27), *Blockbuster Entertainment Corp.* (22), *Circus Circus Enterprises* (31), *Lands' End* (28) and *Pace Membership Warehouse Inc.* (10)—companies with new products, new services, new marketing approaches. These fresh faces could attract a following in a market bored with quality big names but scared of smaller, high-risk situations.

My best to you for a happy and, above all, healthy 1989-92.

Sincerely yours,

Ann. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

We, the taxpayers, must bail out the thrifts' depositors, but why on a basis that enriches influential speculators?

MORE BAILOUTS TO COME

By Ashby Bladen

President Bush, like President Hoover, will have to grapple with the financial crises that the previous Administration managed to keep swept under the rug. The first crisis is already here: the bankrupt thrift institutions. But this is only the tip of an enormous iceberg.

However, the way in which President Bush handles this situation will set a precedent for the coming crises at the corporations that have been overleveraged by takeovers, leveraged buyouts and poison-pill defenses, and at the banks, pension funds and life insurance companies that financed them.

I hope you saw Henry Kaufman on television, or read his speech to the National Press Club on Jan. 10. Looking at the overall implications of excessive borrowing, he warned that, "Ultimately, it will put the government into the business of business through bailouts that will move our system closer to a social, and away from an economic, democracy." By social democracy he means an America that is kinder and gentler to huge overleveraged corporations and speculators.

I have known Kaufman since the mid-1960s, when we both worked at Salomon Brothers under the benevolent eye of the grand old gentleman of Wall Street, Sidney Homer. Kaufman, who is now in business under his own name, is not infallible, as many believed a decade ago. But if you compare his record with that of other mortal forecasters, it is a lot better than most. So, when he speaks of bailouts to come, he is worth listening to. If your financial needs justify his fees, in my opinion, he is the man to talk to.

From now on our government must try to keep its balance on the knife-edge ridge that separates a deflationary depression like that of the 1930s from the inflationary depression that the Third World has been suffering since 1982. The political imperative is to avoid deflation by bailing everybody out at any cost, but Congress still hopes to do it without loading the bailout costs onto the taxpayers. Hence all the posturing over the thrift crisis.

Posturing or no, the half-century-old mistake of guaranteeing deposits has put us taxpayers firmly on the hook, and will force us to go a long way down the road that Kaufman described: bailout after bailout, each putting the government deeper into business. The best President Bush can do is urge Congress to make good when it is necessary to preserve the creditworthiness of the American people, but to refrain from feeding inflation with bailouts that are not absolutely essential.

Congress is beginning to realize that Federal Home Loan Bank Board Chairman Danny Wall's technique for sweeping the problem under the rug is putting taxpayers at risk for indefinitely larger losses in the future. Wall is recapitalizing the busted thrifts with notes of the FSLIC, guaranteeing their assets and selling them off to politically influential speculators who put up a minuscule amount of new capital. What do the speculators get? A fantastic inflation hedge, because the assets that were so depressed by the slowdown of inflation are a marvelous gamble on its acceleration. Thus, buying busted thrifts for pennies on the dollar is a riskless game of heads I win, but tails the taxpayers lose.

The House Banking Committee would like to shoot down Wall's deals, but it still shrinks from sending the bill to taxpayers. The trouble is that a failure to handle the thrift crisis responsibly risks convincing our foreign creditors that our politicians have lost all sense of financial responsibility, sending the dollar into free-fall and turning the U.S. into the world's biggest banana republic.

It has already caused a frightening erosion of our financial credibility. For example, at least since the Nixon Administration, the London *Economist* magazine has urged Europeans to put up with our financial foibles because we are carrying so much of their defense burden. But in the publication's Jan. 21 issue, its lead editorial said that Reagan, "Leaves Mr. Bush a society not just economically spendthrift but spiritually flaccid, less prepared than a superpower should be to make the sacrifices needed to preserve its prosperity and freedom . . . there is a large constituency for not paying the bill."

In its preceding issue, the *Economist* had urged Congress to shoot down Wall's deals by declaring that the bailout notes are not full-faith-and-credit obligations of the U.S. Treasury, but only of the bankrupt Federal Savings & Loan Insurance Corp. I agree that it is neither necessary nor just to saddle taxpayers with the potential losses while leaving all the potential profits to political favorites. But if Congress does not reaffirm that the deposits are backed by the credit of the American people, and make some convincing provision for honoring them, it will risk a crisis that could make the winter of 1932-33 look like a summer picnic.

Either way, interest rates are going to continue their rise toward new peaks. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

Jim McKeever may be an eccentric—but he has been a very successful eccentric.

RISK REWARDED?

By Mark Hulbert

What would skeptics say about an investment newsletter that topped the annual performance rankings for three out of four years? Beating the market in one year might be just luck—but three out of four? Sounds too good to be true.

In the case of James McKeever it is not too good to be true. When I calculated the 1988 investment letter hit parade for my *Hulbert Financial Digest* performance monitoring service, the winner was James McKeever's *McKeever Strategy Letter*. It showed a gain of 133.4%, vs. 16.5% for the S&P 500 with dividends reinvested. And McKeever's newsletter was also tops in both 1985 and 1986.

And 1987? He took a big hit in the 1987 crash, losing a stunning 60%. But he rebounded so successfully that, even after taking this loss into account, he easily outperformed the S&P 500's total return over the last four years, 308.2% to 91.4%.

McKeever would not have been the choice of a public relations firm charged with making the investment letter industry's image less offbeat. He is a guru of the old-fashioned type—he is in fact a fundamentalist preacher, who lists a Ph.D. from something called Columbia Pacific University and who lives in a self-sufficient compound in remotest Oregon. He has written a book and even tried to start a newsletter on the menace posed by the AIDS epidemic. The *McKeever Strategy Letter* focuses on the wildest market of all: commodity futures.

Of course, the skeptics have a standard retort to achievements like McKeever's. Given enough monkeys flipping coins randomly, they say, it wouldn't be surprising to find one with a similarly impressive run of heads.

The analogy is devastating but not quite accurate. One coin flip is not exactly analogous to coming out on top in a yearly sweepstakes in which hundreds of newsletters are competing, particularly by a method like McKeever's, which requires dozens of separate investment decisions each year. Still, if the skeptics try hard enough, they certainly can devise a reason why anything can be said to be random.

In the end, such debates aren't very helpful. The fact of the matter is that some advisers' records are impressive enough to justify betting they'll beat the market again.

Is McKeever's in that category? Do his past successes make him worth betting on for the future? Is his record sustainable?

Over the years several different methods have been devised to separate sustainable from unsustainable performances. One examines performance in light of the amount of "risk" (strictly speaking, volatility) that is incurred in achieving it. Statisticians assure us that of two equally profitable strategies, the one with the lower risk is the better bet for future performance.

And the *McKeever Strategy Letter*'s approach is one of the riskiest around. My HFD reports that in 1988 its model portfolio had nearly ten times the risk of the average stock. Only 2 of the 240 other portfolios I monitor incurred greater risk.

But it's amazing how close McKeever comes to making the risk worthwhile. In 1988, it is true, McKeever's portfolio did underperform the S&P 500 on a "risk-adjusted basis"—meaning that per unit of risk incurred, the average stock made more money than McKeever did. But over the last four years McKeever actually performed slightly better per unit of risk than the market. In that sense, he passes the test.

Before you rush out and become a follower, however, consider this: Nine other newsletters among those tracked by the HFD did an even better job of exploiting risk over the same period.

Another method of separating sustainable from unsustainable performance is the "runs test" *(see my Nov. 28, 1988 column)*. This examines an adviser's record for the existence of statistically significant streaks of performance. It's particularly useful in cases like McKeever's, where huge profits and large losses succeed each other.

McKeever's portfolio does not pass the "runs test." Despite having one particularly impressive winning streak, which took his portfolio up nearly 400% between January 1985 and mid-1986, his combination of gains and losses is not significantly different from a random series. (Note carefully: I'm not saying his performance was random—just that this test doesn't show it wasn't.)

Few investors will have the intestinal fortitude to ride McKeever's roller coaster. After its 18-month 400% gain, for example, the *McKeever Strategy Letter* lost more than 80%—giving up all those profits and more—and then took off again, gaining 200%.

With nine letters beating him on a risk-adjusted basis, and considering the wild swings in his performance, following Jim McKeever is not for everybody. Still, the *McKeever Strategy Letter* does come very close to making such high-risk levels indisputably worthwhile. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest *and author of* The Second Hulbert Financial Digest Almanac, *published by Minerva Books.*

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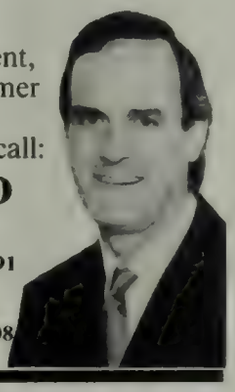

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Forbes: Capitalist Tool® REACH THE PEOPLE WHO OWN AND RUN AMERICA'S BUSINESS

Edited by Thomas Jaffe

More yen for the Dow?

Will the Japanese ever buy U.S. stocks in a big way? There was lots of talk about their coming in 1987, but Oct. 19 and a collapsing dollar put an end to the talk. Yet the temptation is there for the Japanese: U.S. stocks trade at around one-fifth the earnings multiple of Japanese stocks, but Japanese own only about $20 billion in U.S. stocks, trivial in relation to their $150 billion or so in U.S. Treasurys and other fixed-income securities.

Streetwalker now gets the feeling that interest in U.S. blue chips is building among Japanese money managers. A lot of them were burned buying U.S. stocks when the yen was at 180 to the dollar. When the dollar drops, Japanese investors lose two ways: first, because the market itself generally falls apart on bad dollar news, and again because part of their yen-based principal is erased. But Japanese sentiment is veering toward the view that the current 129 yen to the dollar is close to bottom, removing currency risk from U.S. investing for them. Injection of a few tens of billions of Japanese dollars into the U.S. market could be immensely bullish in a market already thinned by massive leveraged takeovers. Could Japanese buying be a reason the market has been so strong this year in the face of scary news?—L.M.

Grace note

Peter Grace has built a topnotch specialty chemicals company, a fact that is lost on the stock market.

W.R. Grace & Co., estimated 1988 sales of $5.7 billion, is the world leader in vacuum packaging of meats and other perishable foods. Its proprietary catalysts are used in Phillips' and Union Carbide's processes for high- and low-density polyethylene. Grace produces water treatment chemicals, thickening agents, printing blankets for offset and letter presses, and lots more. Specialty chemicals account for about 70% of earnings and over 60% of revenues. Since 1985 the group's profits have grown more than 15% a year and sales risen 12% per annum.

Yet, except for a brief breakout during the last stage of the great bull market, the shares have roughly traded between 20 and 30 during the past decade. Recent NYSE price: 27¾. Analyst Robert Reitzes of New York's Mabon, Nugent & Co. estimates Grace will earn $2.90 a share this year, versus $2.38 from continuing operations in 1988.

Grace packaging for processed meat
Value under wraps.

Investors apparently won't pay much for Grace's nonchemical businesses. While Chairman Grace, 75, has sold off many businesses, he has also put the company into videocassette distribution, educational software, energy services, specialty fabrics, cocoa production, cattle breeding and 97% of National Medical Care, the leader in kidney dialysis care.

Reitzes thinks the breakup value of this hodgepodge is at least $50 a share, nearly twice the current market price. Is the company vulnerable? Probably not to a hostile overture; few executives are better connected than Peter Grace. Still, management controls less than 10% of the 84.9 million shares. At recent prices, a 5% stake would only cost $120 million, not much for an attempt to unlock some of this company's obvious values.

"It's frightening"

On $1 billion in revenues last year, San Francisco-based Di Giorgio Corp. earned a mere $9 million or so, around $1.65 a share. A conglomerate in many unrelated businesses, its return on equity has stalled below 10% (it was 11.5% last year, thanks to a big stock buyback). Earnings aren't much better than they were ten years ago.

But this same dismal record and the company's assets have made Di Giorgio attractive to raiders. Its biggest shareholders now are investment groups that include Chicago financier Samuel Zell (7%) and Canada's Belzberg family (3.5%). Investors led by New York money manager Mario Gabelli hold another 17% of the 5 million Big Board shares. The stock? Recently at 24, it's doubled since the October 1987 crash.

How does management feel about all this attention? "At first it's frightening," says Chairman Peter Scott, 61, from his 23rd-floor office featuring a panoramic view of San Francisco Bay. "But we're almost getting used to it. It's a part of doing business today and that's a terrible commentary."

Terrible, but formidable. Last year the threat of takeover forced Scott to sell two food packagers, a building materials division and a land development outfit. What's left? White Rose, a food distributor serving metropolitan New York, and Carando, an Italian specialty meat processor in New England. These account for some 80% of sales and about half of profits. There are also three manufacturers of building products such as windows and precut wood framing.

Scott now talks of 15% annual earnings growth over the next three years. Clearly, he's counting on his more focused company to produce sufficient profits to keep the raiders at bay. But it may not be that easy. Food distribution is a slow-growth business, New York a mature market. As for building materials, it's a cyclical business and Di Giorgio a smallish player subject to regional economies.

Meanwhile, Scott proudly notes he has cut his corporate staff, from 100 in 1984 to a current 35. He did not cut his own take, however, despite the company's poor performance. In 1987, a losing year, the top nine executives pocketed nearly $2 million in compensation. Of that, $740,000 went to the chairman.

But Peter Scott may not have many more such years. The raiders think they can wring out $35 per share or more by breaking up Di Giorgio. Says Marc Belzberg, son of family leader

ımuel Belzberg: "It's a conglomerate ıat doesn't make a lot of sense being gether."—**Ralph King Jr.**

he state of Union

Henry Coffey Jr., an analyst at Nashville's J.C. Bradford & Co., akes the case that Union Planters orp. is a turnaround. Tennessee's fth-largest bank holding company, iemphis-based Union was flounderıg in the mid-Eighties. Management, ıder William Matthews Jr., had let s core banking business slide in faır of dabbling in such exotica as a al estate database and a money ansfer system for truck fleets. Earnıgs collapsed and primary capital ıbed dangerously low. Result: In late 984 Matthews was ousted and Richd Trippeer Jr. and Benjamin Rawlins . were brought in as chairman and ıief executive, respectively.

The pair has strengthened reserves, structured the bond portfolio, inreased net interest income, and refoısed on core loan growth at $3.3 illion (assets) Union's network of ımmercial banks. They also have ıt back on Union's broker/dealer opations, which sell fixed income seırities as well as package and resell ıortgage securities and whole loans.

Coffey also approves of Union's ew acquisition program. Since 1987 has acquired seven community anks in Tennessee with total assets f $580 million. In addition, it has greed to buy, at reasonable prices, ıur more banks in Arkansas, Missisppi and Tennessee with another 710 million (combined) of assets.

Last year Union earned $3.42 a ıare, up from 82 cents in 1987. (The tock will begin trading on the Big oard in mid-February and will split -for-1 on Mar. 3.) On a presplit basis Coffey expects it to earn $3.50 in 989, and that's if the broker/dealer usiness simply breaks even. Should have a good year, earnings could be igher still. The dividend, suspended ı 1985, was reinstated in 1987. Curent yield: 3.7%.

At its recent o-t-c price of 26⅛, Coffey notes Union is the only bank e follows that sells below its bonddjusted tangible book value, $29 a hare. (To arrive at this, he accounts ır unrealized bond gains or losses, nd also writes off goodwill.) Since 987 there has been steady insider uying, at prices averaging around 5½. Santa Cruz Resources, an affilite of Tucson Electric Power Co., wns 21% of the 7.4 million shares.

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"This is the way you always imagined the South Pacific to be – an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the *Bounty* two centuries ago. Situated 200 miles out to sea northeast of Nadi, Laucala is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds. . . .

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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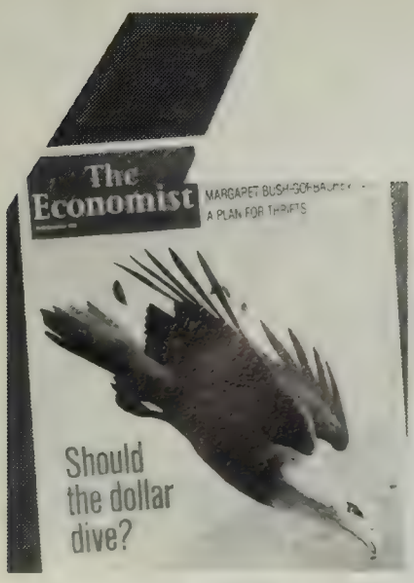

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

;venty years ago in FORBES

om the issue of February 22, 1919)

'**There is a shortage** of 3.2 million borers,' declares Secretary of Labor illiam B. Wilson. Yet a bill has been troduced in Congress, with the cking of organized labor, that immiation from Europe be prevented for ur years. Surely the present is not an portune moment to legislate upon migration, since no human being n foretell whether the flow of labor ill be greater from the U.S. to Europe an from Europe to the U.S."

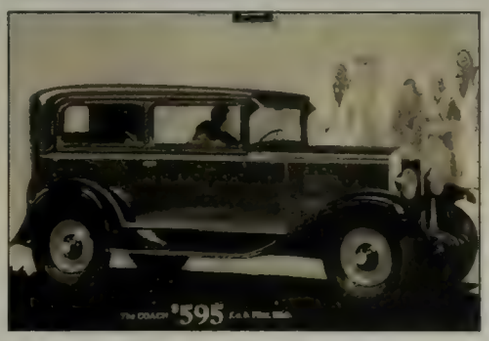
:-soldiers and sailors mix with civilians a 1919 employment line

The savings of $2 billion a year rough the stoppage of the drink traf- : is only one of the minor benefits hich are likely to flow from [Prohition]. There will be even larger savgs in expenditures for prisons and ison keepers, police forces, hospils, insane asylums, orphanages and l manner of charitable organizaons. The moral fruits of Prohibition ould far outweigh the billions of llars saved."

ixty years ago

rom the issue of February 15, 1929)

Now is an excellent time to retire xed capital obligations by issuing mmon stock. The public's appetite r stock will not always be as keen as is today. Far-seeing managements ould take advantage of existing contions to get rid of bonds and prerred stock whenever possible, thus ducing or eliminating fixed interest id dividend obligations. The public the moment does not want bonds preferred stocks. Let them have hat they do want wherever this can : done fairly and honorably."



The new Chevy Six easily withstood the challenge from Ford's Model A

"**Professor Albert Einstein** has prepared for the Prussian Academy of Science his latest theories, enlarging on his previous principle of relativity. It is understood that in his latest theoretical discoveries, Dr. Einstein links gravitation with electricity."

Fifty years ago

(From the issue of February 15, 1939)

"**It costs Americans** $17 billion a year for the privilege of being governed. Notwithstanding that Franklin D. Roosevelt, referring to President Hoover's $4 billion budget for 1932, said that it involved 'the most reckless and extravagant pace that I have ever been able to discover in the statistical record of any peacetime government anywhere, any time,' he has unconcernedly outlined a budget for 1940 calling for federal expenditures of nearly $9 billion. . . . Local taxes are estimated at more than $7 billion additional. . . ."

"**Any widespread instability** of employment always results in a greater percentage of cash buying of automobiles. Most people hesitate to make contracts they are not fairly certain they can fulfill. Final figures will show that in 1938 less than 50% of all automobile sales were paid for on the installment plan."

Twenty-five years ago

(From the issue of February 15, 1964)

"**The nickel newspaper** seems to be following the once-supreme two-center toward publishing oblivion. At last year's end only 578 of the more than 1,700 U.S. dailies still cost a nickel; exactly 500 sold for between 6 cents and 9 cents; and 638 went at the most popular single price, a dime."

"**Out in the never-never land** of Hollywood, stars are temperamental, directors unpredictable, producers little tyrants and ledgers not always to be trusted. But there is one company that has consistently turned in a good honest profit on a good honest product. Its stars generally do not throw tantrums (frequently, its stars are ink on paper). Its producer and director is a kindly mustachioed man who loves little children. And its bookkeeping is as comforting to stockholders as it is honest. This is the story of Walt Disney Productions, which hit the big time with Mickey Mouse. For fiscal 1963, it reported the best-ever year: net profits of $6.6 million on a gross of $81.9 million, versus $5.3 million on $75.6 million in the previous fiscal year. . . ."

Mickey at 60: From a talking picture debut in 1928, he made his last Disney cartoon in 1954

Ten years ago

(From the issue of February 19, 1979)

"**College women**—but not their male counterparts—appear almost immune to the government's 15-year-old campaign to curb cigarette smoking. The latest annual national survey by UCLA and the American Council on Education shows that frequent smoking among freshman coeds has gone up 'substantially' since the first canvass in 1966. That year, 13.2% of first-year women considered themselves frequent smokers; the 1978 figure is 17.1%. Male freshmen traced an exactly opposite curve."

"**Those toll-free '800'** telephone numbers, handling no-charge traffic to hotels, motels, airlines, stores, etc., are ringing bells for AT&T to the tune of $700 million annually. Since the service began in 1967, '800' customers have been increasing at a 20%-a-year clip and now number close to 40,000, accounting for 900 million calls a year."

Thoughts
on the Business of Life

What a people talk about
means something.
What they don't talk about
means something.
WILLIAM SAROYAN

Two great talkers will not
travel far together.
GEORGE BORROW

Learning consists of ideas,
and not of the noise that is
made by the mouth.
WILLIAM COBBETT

Anybody at all has the right
to talk about himself—provided he
knows how to be entertaining.
CHARLES BAUDELAIRE

A bore is a person who talks when
you wish him to listen.
AMBROSE BIERCE

Gullibility is the key
to all adventures. The greenhorn is
the ultimate victor in everything;
it is he that gets the most
out of life.
GILBERT K. CHESTERTON

A truly good book is something
as wildly natural and primitive,
mysterious and marvelous,
ambrosial and fertile
as a fungus or a lichen.
HENRY DAVID THOREAU

Man being made a reasonable,
and so a thinking creature,
there is nothing more worthy of
his being than the right
direction and employment of his
thoughts; since upon this
depends both his usefulness
to the public, and his own
present and future benefit
in all respects.
WILLIAM PENN

Repartee is what you wish
you'd said.
HEYWOOD BROUN

*Promotion awaits the employee
who radiates cheerfulness,
not the employee who spreads gloom
and dissatisfaction.
Doctors tell us that cheerfulness
is an invaluable aid to health.
Cheerfulness is also an
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B.C. FORBES

The trouble with plays these days
is that they're too easy
to understand.
ROBERT ALLEN ARTHUR

Is it a stale remark to say
that I have constantly found the
interest excited at a playhouse
to bear an exact inverse proportion
to the price paid for admission?
CHARLES LAMB

There is no reward for
finding fault.
ARNOLD GLASOW

Keep the gold and keep the silver,
but give us wisdom.
ARABIAN PROVERB

They know enough
who know how to learn.
HENRY ADAMS

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RALPH C. SMEDLEY

The direction in which
education starts a man will
determine his future life.
PLATO

The longer we dwell on our
misfortunes, the greater is their
power to harm us.
VOLTAIRE

Trifles make up the happiness
or the misery of mortal life.
ALEXANDER SMITH

A Text . . .

In returning and rest shall ye be saved; in quietness and in confidence shall be your strength.
Isaiah 30:15

Sent in by Robert K. Wilpitz, Oklahoma City, Okla. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

A rather important
contemporary problem:
too many unintelligent
intellectuals.
WALTER HOVING

I believe in courtesy,
the ritual by which we
avoid hurting other people's
feelings by satisfying
our own egos.
KENNETH CLARK

Who can refute a sneer?
WILLIAM PALEY

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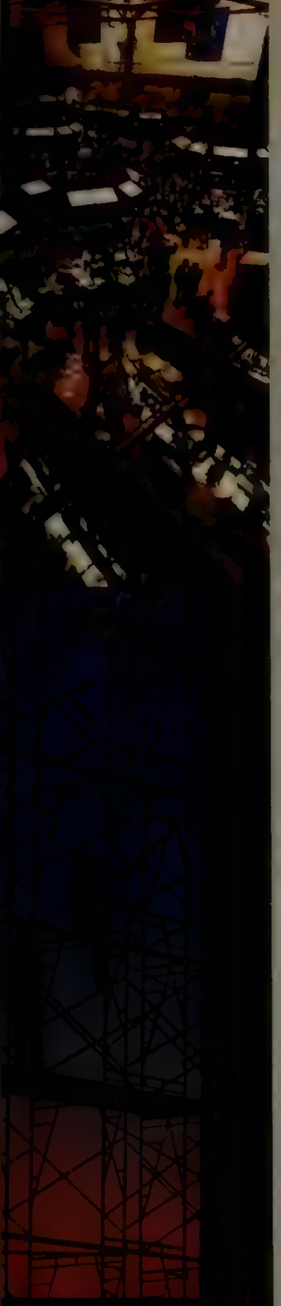

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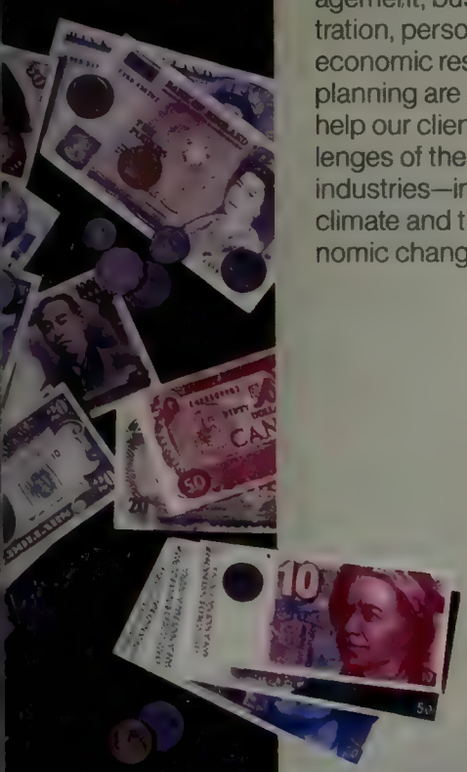

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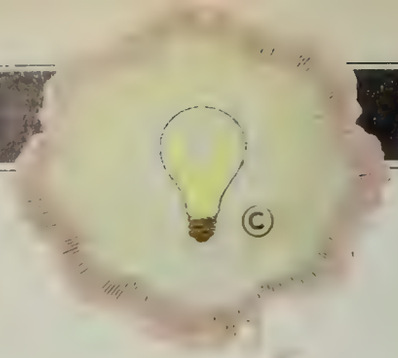

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High tech is not an industry but a state of mind

On page 142 of this issue, Claire Poole writes about the extravagant claims made for a company called Peripheral Systems of Portland, Ore. This nifty little outfit says it can make a nuclear battery the size of a wastebasket that could produce enough power for several homes for as long as ten years. Several well-known magazines have touted the product, and investors have given the company a market capitalization of $90 million, but FORBES concludes that the whole proposition is highly questionable.

Too much that is written these days about technology and computers and communications is—like the publicity surrounding this nuclear battery—terribly uncritical. That's why FORBES has expanded its coverage in these fields. We feel that by applying our broad outlook on business and finance to the coverage of high tech we can help the business community understand that today high tech isn't an industry—all industry is involved in high tech.

Thus, in this issue's cover story, "Can Las Vegas sue Atlantic City?" Kathleen Wiegner and John Heins take a serious look at the question of copyright protection for computer software. They ask: Are we in danger of throttling innovation by overprotecting inventors and designers? (Starts on p. 130.) And, starting on page 138, Gary Slutsker brings readers up to date with developments in cellular communications, reporting on how digital technology and other advances will both improve cellular telephone service and permit massive expansion of the service. On page 137, columnist Esther Dyson talks about computer-aided software engineering, its advantages and the resistance that has held back its development.

English major makes good

FORBES' view of business is as broad as life itself. Just as computers and communications are a major part of our coverage, so is Careers, the department that concentrates on the human side. In "Taking charge," page 154, Dyan Machan writes about Marjory Williams, who overcame adversity and an ignorance of business to become an outstanding entrepreneurial success. Her path helps explain a modern phenomenon—women are starting businesses at almost twice the rate of their male counterparts.

Williams at Wellesley

A break in the debt impasse?

International affairs? In "Giving a little to save a lot," Edwin A. Finn Jr. writes that the Bush Administration could break the impasse on Latin debt by cutting a special deal with Mexico. Why Mexico? Because that country has done far more than most to put its own economy in order and because Mexico's economic health and our own are inextricably mixed together (p. 38).

James W. Michaels
Editor

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Whiz kid fizzle

October 31, 1988

William Stoecker

When FORBES last talked with William J. Stoecker, the 32-year-old former welder boasted how he had built his Grabill Corp. into a $500 million conglomerate in five short years. FORBES didn't swallow Stoecker's yarn, questioned his bookkeeping and wondered why some big banks had been dumb enough to lend him $400 million.

Three months after the publication of our story, Grabill has filed for protection from its creditors under Chapter 11. Meanwhile, some of Grabill's creditors have charged that over $100 million in real estate and cash is mysteriously unaccounted for in financial data provided by Grabill. The matter has been referred to the office of the U.S. Attorney.—**Ralph King Jr.**

David Hamsley

Brand-new start

May 19, 1986

Almost three years ago, with brand names becoming all the rage on Wall Street, Magic Marker Industries was missing out on the action. The inventor of felt-tip pens had squandered one of the world's premier monikers through inept marketing and poor financial controls, and had been forced to file for Chapter 11 protection from its creditors. Apparently not even a name that had become synonymous with all brands in its market was enough to save a poorly run company.

Now the Magic Marker name, seemingly destined for the ashheap, has been revived by Binney & Smith, the Hallmark Corp. subsidiary best known for its Crayola crayons. Starting Apr. 1 Magic Marker brand pens will be produced under license in a deal that should allow Magic Marker Industries, which no longer has use of the name, to pay off creditors with the royalty income. Binney & Smith, which has successfully diversified the Crayola name to more than 100 products, says it was attracted to the deal by the continuing high consumer recognition of the Magic Marker name.—**Edward F. Cone**

Alan Dorow Archive

Fast breakski

Jan. 23, 1989

David Stern

Two months ago FORBES reported on the global ambitions of the National Basketball Association. One market that league Commissioner David Stern particularly wanted to crack was the Soviet Union. The hoops-crazy Soviets, whose national team beat a team of U.S. amateurs in basketball at the 1988 Seoul Olympics, seemed a tempting target for televising the professional game.

Score a three-pointer for Stern, whose organization last month began televising the first of 14 NBA games in the Soviet Union. In the spirit of glasnost, the Soviets are allowing up to 6 minutes of commercial time in each NBA telecast, which will be an edited 60-minute tape of an earlier contest. Sponsors for the games include Coca-Cola and MasterCard International. A trial broadcast in late January was seen by more than 60 million Soviet viewers.—**E.F.C.**

Chip Hires/Gamma Liaison

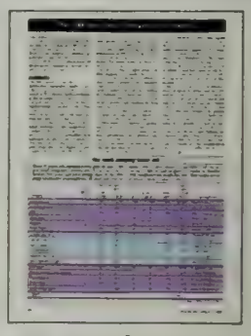
Stormy weather

Jan. 26, 1987

Two years ago FORBES reported that the cruise ship business, after nearly a decade of explosive growth, was headed for stormy waters. With the construction of new, ultraposh cruise ships beginning to outstrip passenger demand, we foresaw a shakeout and consolidations looming for the love-boat industry.

We were right. Over the past year the three largest mergers in the industry's history took place: Royal Caribbean and Admiral Cruises joined to form Royal Admiral Cruises Ltd.; Princess Cruises merged with Sitmar Cruises; and Carnival Cruise Lines bought Holland America Line's cruise operations.

Is there any room left for the small, independent cruise ship operation? Industry analysts say that three or more ships are needed to achieve the necessary economies of scale in today's tough market. If so, there is at least one group of investors who have not gotten the word. Later this year privately owned Ocean Quest International of New Orleans will launch a cruise ship for folks looking for more than a quiet afternoon of shuffleboard and vodka tonics on the high seas: The ship will also offer scuba diving, windsurfing and snorkeling in the Caribbean.—**Carolyn Torcellini**

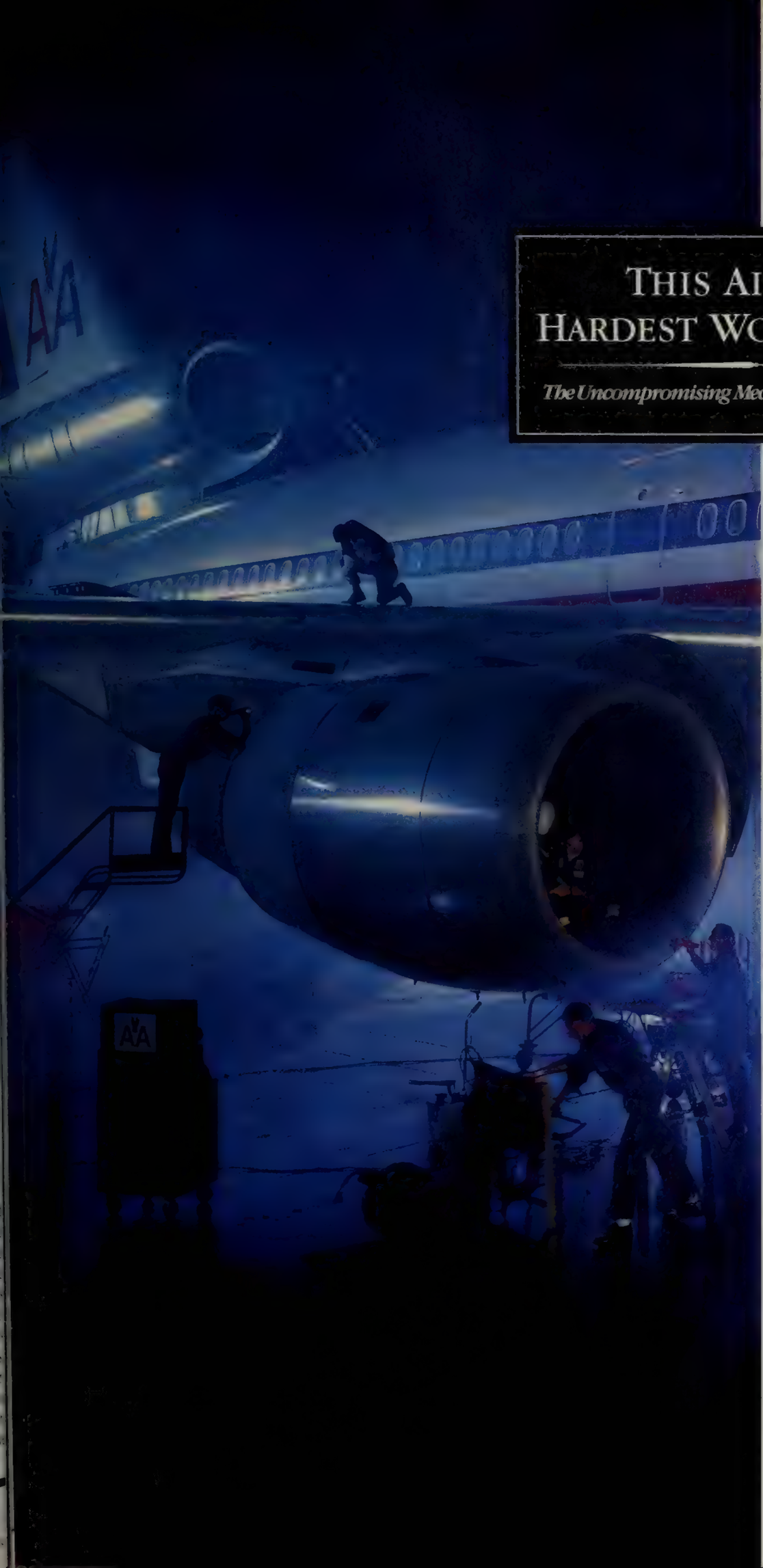


White knight

Nov. 14, 1988

Actmedia Inc. is a New York-based outfit that does a profitable business placing advertisements on supermarket shelves and shopping carts. But the company expanded so aggressively in the mid-Eighties that Wall Street grew nervous at its narrowing margins and started dumping the stock. FORBES said the smart money was wrong, and that at $9 a share Actmedia was a buy.

We were right about the stock's value, and by January at least one savvy investor agreed with us. Dallas-based Heritage Media Corp. bought the company in a tender offer for $14 a share in cash or $15.50 in Heritage common stock. The takeover gives Actmedia Chairman Bruce Failing advertising opportunities at Heritage's 11 radio and 6 television stations. Says Failing, "It didn't turn out perfectly for us because we didn't get to roar back independently, but it's better than being owned by someone we didn't like."—**Evan Sturza**



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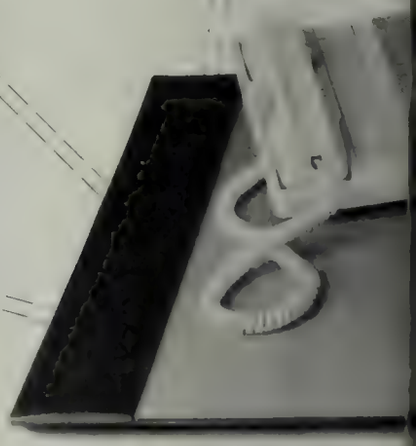

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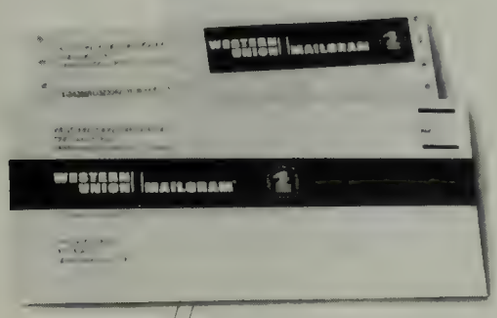

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Forbes Informer

Edited by Gretchen Morgenson

A cloud on Sunshine

Sunshine Mining abandoned its $865 million—$28 a share—bid for Rexene Corp. in early February, little more than a month after signing a letter of intent to acquire the chemical concern. Sources say Sunshine took a second look at Rexene's future and didn't like what it saw. It saw a strong possibility that Rexene might be about to lose a valuable edge.

Rexene does a huge export business in chemicals—33% of its production is sold abroad. Much of its recent earnings gains has come from the huge premiums foreign companies have been paying for American polyethylene recently—15 cents a pound over what domestic companies pay. But all good things must come to an end. In the fourth quarter of 1988 export premiums came crashing down, mostly because the People's Republic of China, which had been a big polyethylene buyer, slowed buying.

Watch your wallet

Here's an investment tip for 1989: When a salesman suggests you buy a few shares in Colonial Fund's new closed-end bond fund, High Income Municipal Trust, tell him thanks, but no thanks. This fund will invest in junk municipals, the dicey bonds favored by such aggressive operators as now defunct Buchanan & Co. and the still extant Miller & Schroeder.

Colonial will tell you that the bonds it will be dealing in are nonrated only because the issuer didn't want to spring for an expensive S&P or Moody's rating, and that its fund manager will choose carefully to avoid the more perilous junk. But that's not so easy to do. Junk munis are highly illiquid bonds, funding for the most part small and questionable projects. Priced at $10 a share, the fund is expected to yield around 8%. Even if it weren't risky, this wouldn't be a good deal. You can get 7% in funds that buy high-rated municipals.

Bit by the show-biz bug

You know the story: Hard-nosed money man has brains turn to guacamole in the hot California sun. Will this happen to Hollywood's newest mogul, Wall Street's own Michael Steinhardt? Basking in the glow of warm publicity about his investing success, Steinhardt has decided to go into the movie biz.

Isaiah Wyner

Wall Street's Michael Steinhardt
From stock picks to hot flicks?

In his copious spare time between running $1.3 billion in assets and launching a new closed-end fund, Steinhardt is teaming with his old lawyer-turned-Hollywood-producer, Thomas Baer, to acquire and develop film properties. The partners plan to make at least two movies a year, and may announce their first flick in March. Baer says Steinhardt, a confirmed movie buff, will consult with him regularly: "I hope his genius at picking stocks will translate into a genius for picking movies."

A genius and his money are soon parted.—**Eric Schmuckler**

Double your standard

Officially, the whole beef imbroglio between the U.S. and the European Community is over European objections to the use of certain hormones in U.S. livestock. How curious those health concerns seem, considering the Europeans routinely use dangerous drugs in the $384 million of pork and beef annually exported to the U.S.

A recent stroll through Europe's largest livestock trade show by a Kansas veterinarian turned up some 50 drug compounds not okayed for use in U.S. livestock.

Probably most worrisome is chloramphenicol, which can trigger aplastic anemia, a potentially fatal human blood disease. Then there's dimetridazole, a swine dysentery drug banned in the U.S. in 1987 after the FDA labeled it a suspected carcinogen. Trade show vendors also offered a smorgasbord of estrus-synchronizing hormones, anabolic steroids and antibacterial mixes not cleared by the FDA but widely available to European hog and cattle producers.

Hypocrisy, thy name is high-mindedness.—**Michael Fritz**

Making book with Meyer

Does Meyer Blinder, of "Blind 'em and rob 'em" fame, feel he's been treated unfairly by the press? Perhaps; Meyer's taking his case directly to the people with his 256-page book, *Meyer Blinder: King of Penny Stocks*, due out this spring. Yours for only $18.95.

The tome charts Blinder's rise, complete with photos, from his humble Brooklyn origins through stints in Manhattan's garment district and as a door-to-door salesman. Of course, the book won't report what FORBES has reported: that Blinder's firm sells specious stocks at phony prices.

Who is publishing the Blinder opus? Little HDL Communications of Costa Mesa, Calif., an outfit Blinder coincidentally took public in March 1987 at 2 cents a share. The book was supposed to be out last Christmas, with an initial print run of 30,000. But Blinder's lawyers have been taking extra care in vetting the manuscript.

"Trump did a book, Iacocca did a book," says Blinder's ghostwriter, Mike Blake.

No charge, we'll proffer a title: *The Art of the Bum Deal*.—**Claire Poole**

Avon? No, Jones & Co.

Forget cold calling; the latest in brokerage firm prospecting is hot footing. So seems the case in a St. Louis suburb, where an Edward D. Jones & Co. broker has taken up door-to-door selling. Beats sitting around waiting for the telephone to ring.

John Segal

Second go at Grow Group

Grow Group, a $400 million (sales) coating and chemical concern, was about to be acquired by PPG on Tuesday, Sept. 6, 1988. The Saturday before, a fire ripped through one of Grow's plants in Los Angeles, forcing the evacuation of several nearby residents. The EPA filed a hazardous materials lawsuit against Grow and PPG dropped its 16⅝-a-share bid. Grow Group stock fell to 11 on the news.

And that's where it sits. But another bid could be forthcoming. There are some fairly obvious reasons: The company is run by Russell Banks, 69, whose net worth is largely locked up in his Grow Group stock and who's made it clear he wants out. Word is, he's negotiating with Japanese and European chemical concerns interested in buying Grow's brand names—such as Devoe paint.

Holding things up is the EPA lawsuit. But insiders say that should be settled soon and a deal will then be made. At what price? Let's just say that PPG's 16⅝ offer could be low.

Throwing in the towel

Turnaround hotshot Victor Palmieri's starting to cool, thanks to Crazy Eddie, the ailing electronics retailer. Palmieri stormed in 16 months ago, alongside Texas electronics wholesaler Elias Zinn. They were immediately hit with $80 million of phantom inventory, accounts payable and the like. Since then the company has floundered, the stock has drifted from 2 to a fraction.

Now Zinn's going back to Houston to devote attention to his own company, Entertainment Marketing. Word is Palmieri would just as soon put Crazy Eddie on the block. Finding buyers won't be easy. At almost any level, the price would be insane.—E.S.

And the winner is . . .

Warren Beatty, Dustin Hoffman and Elaine May are suing Columbia Pictures. For Columbia, that's close to double jeopardy.

Reportedly, Hoffman and Beatty each got $5.5 million to act in *Ishtar*, one of Hollywood's most notorious turkeys. Beatty got another $500,000 to produce and May got $1.5 million to write and direct the film. Never mind that the stinker didn't come close to recouping its $45 million cost; Beatty and friends say they're owed $2 million as their share of the gross. If they gave an Academy Award for sheer brass, Beatty, Hoffman and May would win in a walk.—E.S.

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Readers Say

Citicorp's results

SIR: Where you showed a deficit for Citicorp in the 12-month return on equity columns in your Jan. 9 industry survey, you should have shown a 22.6% return on equity, based on earnings of $1.7 billion for the Sept. 30 year you studied ($1.9 billion for calendar 1988). Earnings per share was pretty badly mangled in this same set of calculations. Instead of a $1.74 deficit, you should have reported a positive $4.99 per common share ($5.36 for calendar 1988).

In separate calculations, you also got the 5-year ROE wrong—by a factor of perhaps 100%. Needless to say, this threw off the rankings, etc., etc., etc.

—John J. Maloney
Director of Press Information,
Citicorp
New York, N.Y.

FORBES regrets the errors—ED.

Origin of the thesis

SIR: The Streetwalker column in FORBES' Feb. 6 issue carries a little piece in which the Super Bowl Predictor is credited to Minneapolis' IDS Financial Services. I began publishing the Super Bowl Predictor at Dean Witter Reynolds in 1979. Since the Predictor has proven ever more successful with each passing year, there are a growing number of would-be fathers.

—Robert H. Stovall
President,
Stovall Twenty-First Advisers
New York, N.Y.

Raised eyebrow

SIR: Re Fact and Comment *(Feb. 6)* The way I heard it (and like it better): "Behind every successful man is a surprised mother-in-law."

—Donald G. Thompson
Santa Barbara, Calif.

Rotten movies

SIR: Your praise of New Line Cinema's Robert Shaye and his *Nightmare* films is disheartening ("It's great for a date," *Feb. 6*). What you consider to be all good Hollywood fun is cruelly demeaning to the millions of Americans who suffer from severe mental illnesses. These rotten movies reinforce undeserved feelings of shame which keep many such persons from seeking professional help.

—Jack Hinckley
President,
American Mental Health Fund
Washington, D.C.

Sympathy for the devil

SIR: Michael Novak ("The mind-centered system," *Feb. 6*) is correct that capitalism promotes creativity. But the mechanism that is responsible deserves equal billing: greed.

Philip J. Freedenberg
Executive Vice President,
Federal Engineering, Inc.
Fairfax, Va.

No sympathy

SIR: Re Fact and Comment, Jan. 23. It isn't timidity that keeps investors from returning to the market, it's plain old distrust. We read about insiders, program trading, dividend captures, brokerage houses playing both ends against the middle, and it soon becomes plain the middle is us.

—D.J. Bauer
Palm Desert, Calif.

No fret

SIR: You reviewed *The Lives of John Lennon (Fact & Comment, Jan. 23)* despite your admitted lack of knowledge or appreciation of his music. You will not mind if *Guitar* magazine starts running articles about mutual funds.

—Jonathan Blum
Rockville, Md.

315 days to go

SIR: Re your article on Ravi Batra ("Faces Behind the Figures," *Feb. 6*). Evidently, you haven't noticed: The year 1990 has yet to arrive!

—John Weil
Grapevine Graphics
Grapevine, Tex.

Who's we?

SIR: The following story comes to mind every time my broker says "we" should buy. The Lone Ranger and

Tonto were pursued into a box canyon by a band of Indians. At the end of the canyon the Lone Ranger turned to Tonto and said, "Looks like we'll have to fight our way out, Tonto."

Tonto's response: "Who's 'we,' white man?"

—Robert A. Duis
Brunn Am Gebirge, Austria

Draconian diatribe

SIR: Those who know May (including most of our 60 million customers) would not recognize your description ("Milking the cow, hard," *Feb. 6*). We are a merchandise-driven company that works very hard to solve problems methodically. [Your article is] a Draconian diatribe based on a few problems.

—Lawrence E. Honig
Vice Chairman,
May Department Stores
St. Louis, Mo.

Drawing the line

SIR: Re "This land is my land . . . or is it?" *Jan. 23)*. There are few instances where mortgage sketch plans can be produced and not be misleading. They rarely touch on rights-of-way, easements, encroachments through adverse possession, and other matters disclosed by a full survey.

—Chester Chellman
Chief Executive Officer,
White Mountain Survey Co., Inc.
Ossipee, N.H.

SIR: Anyone not requesting the services of a registered land surveyor is looking to spend time in a courtroom with his neighbor. Some fences do not make good neighbors.

—Allan Miramant
Southington, Conn.

Resumed dividend

SIR: The brief reference to Middle South Utilities in your industry survey *(Jan. 9)* left the impression the company remains financially troubled. On June 24 the U.S. Supreme Court cleared away a major state jurisdictional challenge to the Grand Gulf power plant's rates and enabled Middle South to resume a common dividend on Dec. 1.

—Glenn H. Parsons
Director, Communications,
Middle South Utilities System
New Orleans, La.

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

BUSH IS HOME FREE ON HIS NO-NEW-TAX, DEBT-WAY-DOWN BUDGET

if his estimate of $80 billion of new revenue is even almost right. Quite an "if," though. His sense-making proposals for capital gains reduction to stimulate investment in our economic growth and for oil tax cuts to encourage finding more U.S. sources have slightly more chance of coming to pass than a snowball has in the proverbial location.

BATTING THE S&Ls MESS, THE PRESIDENT HITS A TRIPLE

At the beginning of his Administration, right off the bat George Bush faced a $100 billion Savings & Loan disaster. He's stepped up to the plate and made a solid hit.

Whether he's hitting, pitching or catching, former Yalie baseball captain Bush is proving to be a solidly effective leader.

WE'RE HAPPY GEORGE BUSH IS BUTTRESSING HIS REAL EXPERTISE

on foreign relations with that of Kissinger Associates' two top-notchers—General Brent Scowcroft, now heading up the National Security Council, and Larry Eagleburger, Deputy Secretary of State. Given the President's long experience in the field, his choice of astute Jim Baker as Secretary of State, and with Scowcroft and Eagleburger at hand, dumb moves abroad are not going to plague this Administration.

Having lost his two right arms, though, Henry will have to be moving like a one-armed paperhanger.

MEXICO'S SALINAS IS THE RIGHT MAN FOR A VERY ROUGH RIDE

We have problems, but they pale next to Mexico's.

Fortunately, the man who's now grappling with the daunting challenges facing our very consequential southern neighbor is absolutely first-rate. After a session with him, I came away much heartened.

This 40-year-old new Mexican helmsman has a keen intelligence enhanced with wit and warmth. He's direct, tough, quick and unpompous.

His background in economics—including two master's degrees and a Ph.D. from Harvard—hasn't handicapped him in tussling with the mammoth challenges to Mexico's economy.

He discussed with me two of the rougher problems he sees in the six years ahead as Head: "In the past five years the real income of our citizens has dropped 50%. And when I leave office in 1994 our population of 85 million will have grown to 95 million."

President Salinas made it clear he would be no patsy to those who are heavy obstacles to Mexico's growth when he jailed the entrenched corrupt union boss, Joaquín Hernández Galicia, whose power permeated Pemex and who was considered untouchable.

Encouraged by Salinas' prior and present enthusiastic support, tourism is flourishing. With multiple new hotels rising, old and new resorts expanding, Europeans and Far Easterners are joining Americans in discovering the country's exceptional beauty, archeological heritage and history.

An intensive new drive is under way to develop "business tourism"—conventions and corporate meetings—to feed awareness of Mexico's investment opportunities. To help in attracting foreign capital, the Salinas government is recasting rules and regulations that have discouraged outside investment.

At the end of our conversation, I said to the President of Mexico that I had the feeling that he was going to have some fun getting things rolling during his term. With a wry smile he observed, "The next real fun I'll have will be writing my memoirs."

THE NIGHT AFTER SEEING SALINAS, I PASSED ON TO

President Bush, during Washington's Alfalfa Club's annual dinner, the enthusiastic comments Mexico's new President had made to me about our new President: "I think George Bush really cares about relations with Mexico and the very serious problems we share. I came away from our meeting with a very good feeling." *(See p. 38.)*

Incidentally, this Alfalfa annual off-the-record dinner is Washington's wittiest. And like everything off-the-record in Washington, full "leaks" appeared in the next day's newspapers. I can't resist quoting from the *New York Times* report:

"Senator Bentsen turned the club presidency over to Alan K. Simpson, Republican of Wyoming, who delivered a series of deadpan one-liners like: 'Here in Washington one is presumed innocent until offered a job,' and 'Those who travel the high road of humility are not troubled by heavy traffic.'

"One of the biggest laughs came when Senator Lloyd Bentsen told of the reaction of his wife, Beryl Ann, when he said he was going to be spending the evening with the great political and corporate powers who hold America's future in their hands. She commented, 'Oh, you're going to Tokyo.' "

TWO DIFFERENT ANIMALS: BRAND AWARENESS & CORPORATE IMAGE

Reprinted from Corporate Images, *published by Ogilvy & Mather/Houston*

Q: How do you explain many of the current hostile takeovers on Wall Street?

MSF: If the benefit of a strong brand image is not translated into a strong corporate identity for the financial community, you'll see a disparity between what consumers value the company at and what investors value the company at. That's when the company is ripe for a takeover. Why do you think companies like R.J. Reynolds, Kraft and Pillsbury are being bought for such high prices?

RJR and Nabisco had big value individually as companies because of the brands they had. They didn't do much image advertising. They poured it all into brand awareness. The reason they are being taken over is because they can be broken up into little pieces. A Camel is a Camel. It doesn't matter whether Reynolds is putting it out or somebody else. Miracle Whip has an armlock on the mayonnaise business, so it can be spun off.

It isn't the machinery that turns out Oreo cookies, it's why everyone likes Oreo cookies, and why Oreo cookies are a brand worth, in effect, billions of dollars.

Q: Is this method of creating corporate value widely understood?

MSF: Unfortunately, no. For too many companies, the corporate ad budget is developed from the product ad budget. That's ridiculous. You ask the brand manager to give up part of his budget but still hold him accountable to make sales objectives. Well, a brand manager can't make a decision on creating corporate value; he's responsible for creating brand value. The CEO must make the decision.

[illegible] the most astonishing thing to me is how often [illegible] limited or singular abilities rise to the top in a corporate world and aren't prepared for the job. Every CEO knows the importance of his company's name. Unfortunately, too many don't recognize the opportunity to add tangible value to it. Those that do typically are, and have been, the leaders in their industries.

Q: How does that relate to corporate advertising directed at the financial audience?

MSF: A company can't run an ad saying why its stock price should be higher. You can't make that kind of frontal assault. It's illegal. But when you establish your identity, when you establish who you are and what you are, you can affect the price of your stock.

B.F. Goodrich is now running one of the best, most effective corporate campaigns, even though it hasn't run in FORBES. They are no longer a tire company. They are in different lines of business. They needed to explain that. There are a whole lot of major companies out there that aren't making what they were making five years ago. They need to explain that, too. They need to reestablish their identities.

Q: And yet, corporate advertising budgets are usually the first to be cut when profits are down.

MSF: Yes, but that's a foolish saving. It is immediately reflected in the quarterly bottom line, but two or three years down the road, where are they? What are they? It's dumb, but it's done.

Corporate image is *so* valuable, whether you are launching a new product, trying to make an acquisition, raising money, or want to sell out.

There is just no way any management with any intelligence and foresight cannot recognize the value of a corporate image. It is the best single, marketable investment that a company can make.

HAVE PEOPLE COME BACK FROM THE DEAD?

To mix metaphors, that sounds like an off-the-wall question from somebody whose head is in outer space. It was raised by the vice president of a group of the International Association for Near Death Studies, Inc.

He wrote me: "With considerable delight I prematurely opened a Christmas gift and found *They Went That-A-Way,* which I read with great pleasure. However . . .

"Reading the foreword, I was mildly astonished (if that is possible) to find 'Certainly none of us is personally acquainted with anyone in mortal form who's made the trip and returned with first-hand accounts . . .' since I have *many* friends who have been there, seen and heard and described their 'Near Death Experience' in great detail.

"As Vice President of I.A.N.D.S., I feel obliged to try to be sure that you *have* heard about the testimonies of the past dozen years, first made popular by Dr. Moody's *Life After Life* and 'verified' by dozens of authors and thousands of people of many kinds, all ages, brought to the encounter by amazing varieties of accidents, surgery, childbirth, drownings, electrocution, suicide and being struck by lightning. Then, if you come to recognize their stories, I'd move on to mention Emanuel Swedenborg."

Come to think of it, I do recall reading a few years ago a book that carried a number of "case histories" in which many, who turned out not to be dead after they looked to be, described their sensations as sort of euphorically afloat, vaguely hearing the chatter of those mortals hovering at their bodyside.

Followed by their return to reality.

Reality?

PEOPLE ALWAYS ASK KILTED SCOTSMEN— WHAT'S UNDERNEATH 'EM?

The Prince of Wales' 3-year-old son Harry decided to see for himself. As the *London Daily Express* reported, "It wasn't long before the heir presumptive became very presumptive. And the heir apparent became rather more apparent than he had been."

Lee Brooks Nunn Syndication

"THAT'S A GIVEN"

is often a premise to be questioned.

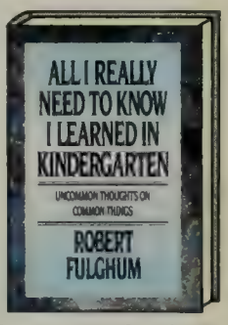
THE GREATEST THING

anyone can give is not his life but his love.

BOOKS

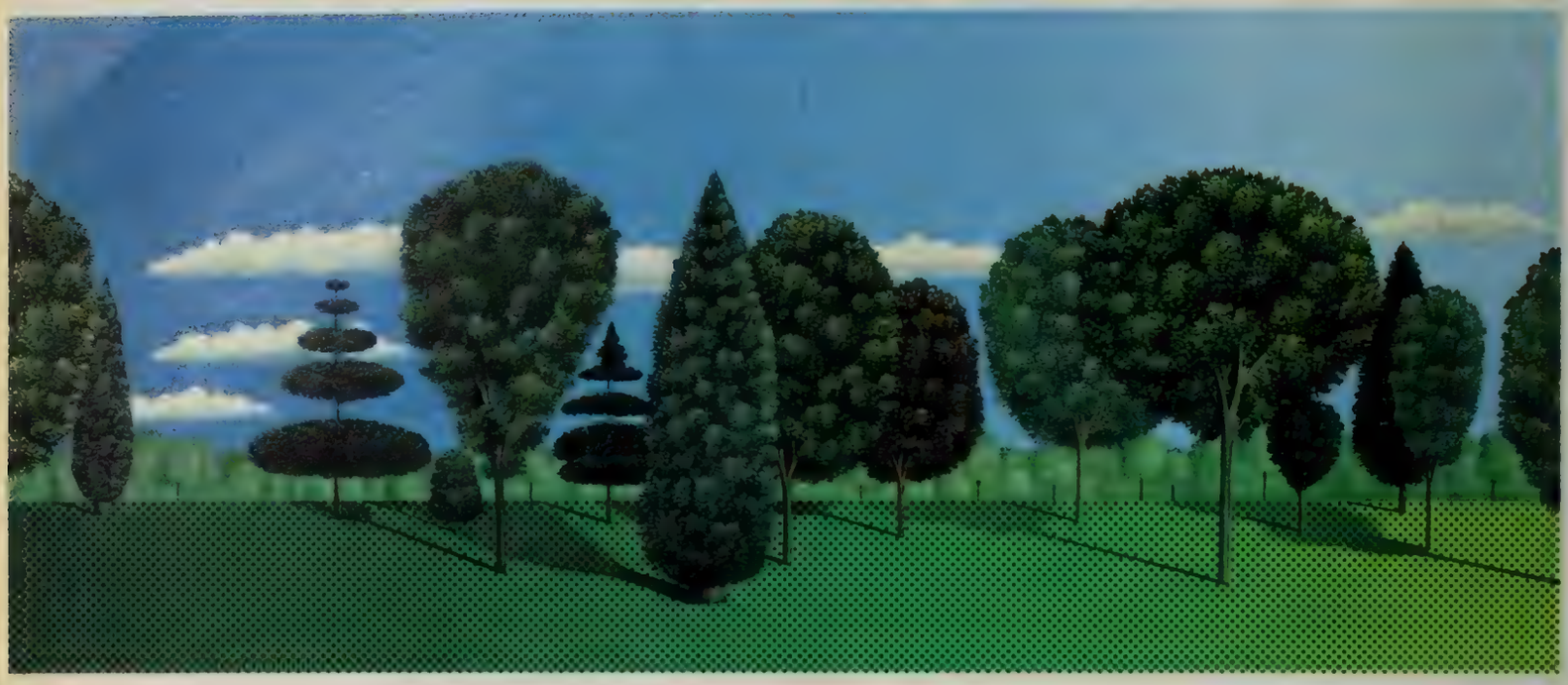
● **Civilian Control Versus Military Rule**—by Robert Previdi (Hippocrene Books, $14.95). Comments son Tim, *American Heritage*'s president, who keeps abreast of such matters: "The Goldwater-Nichols Defense Department Reorganization Act of 1986 became law with little debate in Congress and caused even less than a ripple in public awareness. Yet the law's consequences in creating a sole military authority in the person of the Chairman of the Joint Chiefs of Staff are profound and potentially dangerous, as this passionate and forcefully argued book makes clear."

Excerpt: *I believe the Goldwater-Nichols Department of Defense Reorganization Act of 1986 is, to some extent, a reaction to the failure of Vietnam. It does not include the civilian/military lessons learned since World War II, such as the need for civilians to dominate events by controlling political grand strategy not by becoming instant field commanders. This lack of historical perspective has made the bill narrow in focus and counterproductive. Most important, it contributes nothing towards improving the relationship and decision-making capability between the executive branch, the Congress, and the military.*



● **All I Really Need To Know I Learned in Kindergarten**—by Robert Fulghum (Villard Books, $15.95). A refreshing, delightful credo for all who can use some guides to coping with being alive. Brevity and anecdotal clarity have helped put it at the top of bestsellers lists.

Excerpt: *Weeds are plants growing where people don't want them. In other words weeds are in the eye of the beholder. And as far as I am concerned, dandelions are not* weeds—*they are* flowers! *If dandelions were rare and fragile, people would knock themselves out to pay $14.95 a plant, raise them by hand in greenhouses, and form dandelion societies and all that. But they are everywhere and don't need us and kind of do what they please. So we call them "weeds," and murder them at every opportunity.*



Today, a bank should see the whole as clearly as the parts.

Should you borrow in the Euromarkets or issue domestic commercial paper?

What about investing your corporate cash? Go long, short, fixed, floating?

What's the true value—to you—of a proposed acquisition?

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Bankers Trust Company

Because today isn't yesterday.

Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Cock's Tail?

According to one version General Washington and his officers put together the dribs and drabs of several bottles and, having toasted everything else in sight during a long night of drinking, decided to toast the feathers in Washington's hat. "Let's drink to the cock's tail," one officer is believed to have said. George Washington, the father of our cocktail?

—Marian Burros, *New York Times*

Bargain Too Much

Education may be a bargain, but that doesn't mean it's affordable. It costs $23,000 to $24,000 a year to educate a student at Princeton. We only charge a little more than half that in tuition, so you could say it's a bargain—but that doesn't mean it's affordable.

—President Harold Shapiro of Princeton, in the *Princeton Weekly Bulletin*

Use 'Em Your Way

Of all the institutions arrayed with and against a President, none controls his fate more than television. Television commentators live in an iron cage of highly competitive, cutthroat competition. The media thrive only on conflict and disunity.

TV enables a President to go over the heads of his critics and speak directly to the American people. In short, the media don't have to be convinced. They have to be outfoxed, outflanked and outperformed.

The quiet persuasion of an Oval Office speech is by far the President's most effective tool. A President should also never answer questions on the run, shouting to be heard over the engine of his helicopter or car. He will inevitably look harassed and undignified.

—former President Richard Nixon, *TV Guide*

Di Is Cast

One would think Diana, the Princess of Wales, would tire of a most grueling schedule of charity appearances during a trip to New York, but no. An acquaintance encountered her at one of the many fund-raisers she presided over last week in England.

"How do you do it, ma'am?" he inquired. "Easy," she answered. "If I weren't here, I'd be home watching television."

—William Norwich, New York *Daily News*

A Great Marine

One of the most fascinating military leaders I ever met was General David Schoup, the commandant of the United States Marine Corps. He was a hero in World War II and is since deceased, but he appeared on my show at the height of the antiwar protests in the Sixties. The first thing he said was, "Thank God for these protests. That's what we died for. That's what every Marine in World War II gave his life for, so that these people can march in the streets. And by God, if we stop that, I don't want to be part of this country."

—Larry King, *Tell It to the King*

The Japanese will find out money isn't everything, just as we found out armaments aren't everything.

—Anatoli Adamishin, Soviet Deputy Foreign Minister, *Wall Street Journal*

Baby, It's Cold Outside!

Snow is not my enemy. Snow is God's way of telling people to slow down and rest and stay in bed for a day. And besides, snow always solves itself.

—*All I Really Need To Know I Learned in Kindergarten*, by Robert Fulghum

Lever-ed Socks

I was thinking about poisoned fish as my hand poured fabric softener—the kind with the little bear on the label—into the machine. "What's this stuff?" I asked myself.

A real activist, I carried the bottle upstairs and called Lever Brothers, who make the huggy bear softener. They put me right through to a chemist who answers his own phone, a sure sign of a company with nothing to hide. He talked about chemistry and molecules and toxicity tests. The bottom line is that huggy bear won't hurt anything—not me, not fish, not even algae. My husband can have soft socks.

—Penny Ward Moser, *Life*

Pungent Aroma

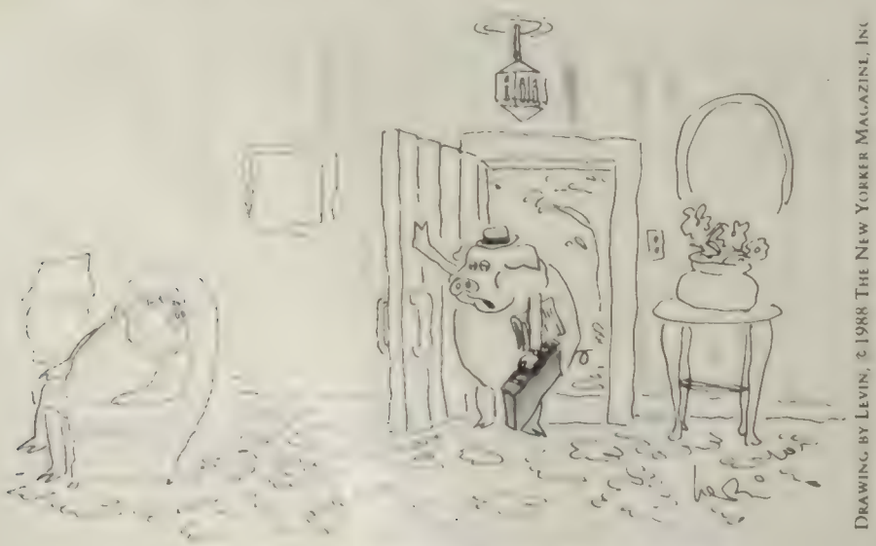
A cynic is a man who, when he smells flowers, looks around for a coffin.

—H.L. Mencken in the *The Portable Curmudgeon*, by Jon Winokur

Tarnished by Time?

At a seminar for the freshman Senate class held in the Capitol, Senator John Glenn "told us that when Truman first came to the Senate, he looked around at the other members and said, 'What in the world am I doing here?' " new Senator Joseph Lieberman recounted. "But six months later, he looked around at those same members and said, 'What in the world are they doing here?' "

—Clifford D. May, *New York Times*



Drawing by Levin, © 1988 The New Yorker Magazine, Inc.

"Boy, [illegible] I had to run crying [illegible] all the way home."

Who puts the thrust behind NASA's data network at the Ames Research Center?

The mission: to carry a heavy payload of data from NASA computer networks to desktops throughout the Ames Research Center. And do it economically.

NASA selected a Northern Telecom integrated network system. It links the widest variety of terminals of any PBX. It opens access to their local network of supercomputers, mainframes and minicomputers. They can even use it to reach data on NASA's nationwide computer network.

If you want to boost the power of your data network, Northern Telecom has just the vehicle.

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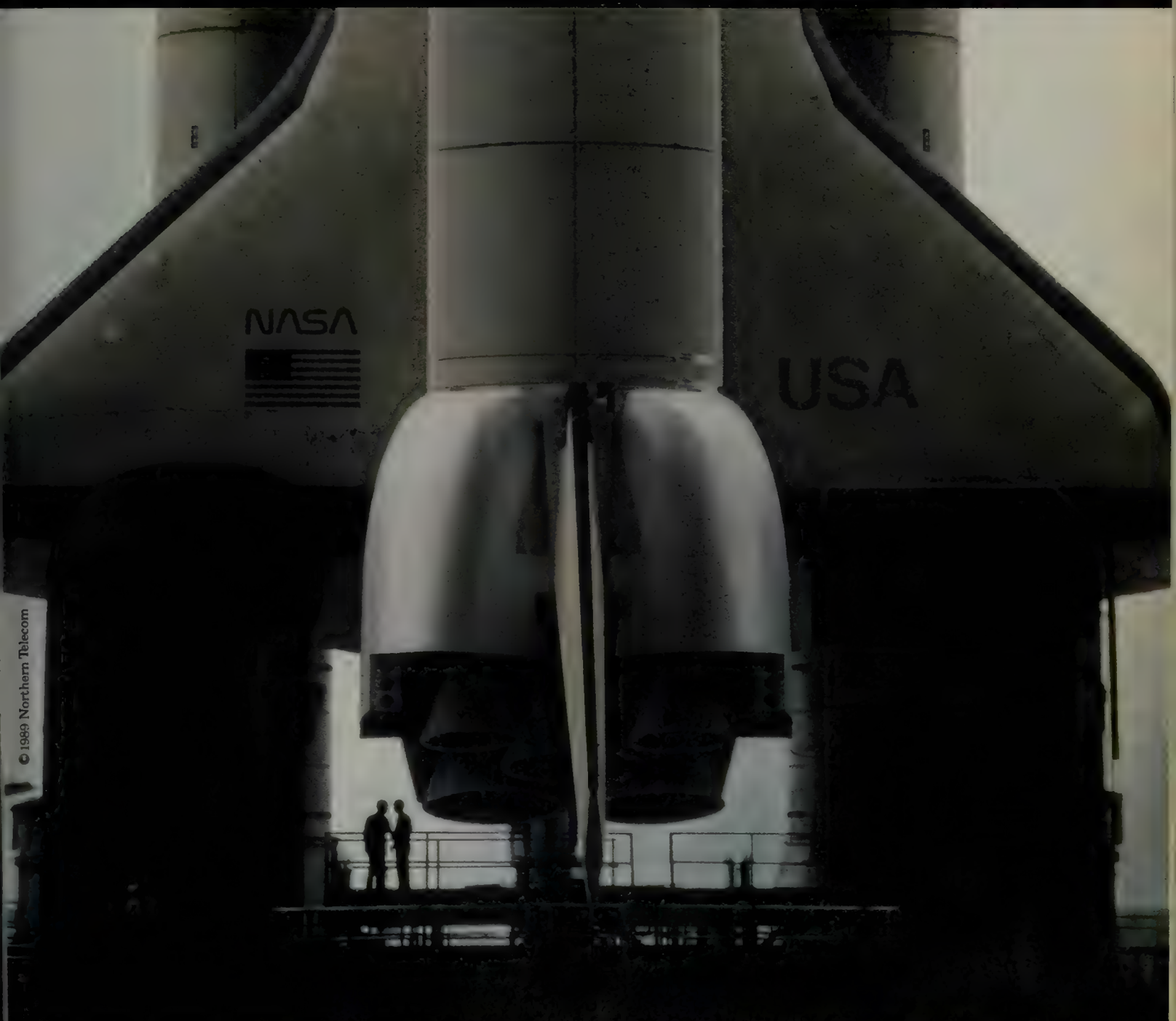

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Number 6

How much cash is enough?

Your car develops terminal transmission trouble a week before your vacation.

Your air conditioner has a heat stroke in 98° weather.

Your Little Leaguer loses a front tooth sliding into second.

Everybody knows you need to keep some cash on hand for emergencies like that. But few people know how much is enough.

Financial planners generally recommend a cash reserve of three to six months take-home pay, depending on your personal circumstances.

That sounds like a lot of money to have lying around gathering nothing but dust. And it is. But your cash doesn't have to be idle to be accessible.

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There's no redemption charge, and your money earns dividends daily until your check clears.

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Our money fund specialists are available to answer all your questions during normal business hours. Call us toll-free at 1-800-537-6001 for a free prospectus containing more complete information, including management fees and expenses. Please read it carefully before you invest or send money.

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

IN THE NAME OF IMPROVING AMERICAN COMPETITIVENESS

a number of economists, politicos and business executives are advocating some unwise ideas, including "special" partnerships between government, academia and the private sector and "targeted" tax credits for research and development.

These worriers overlook a fundamental point: We don't have to be number one in everything to be the strongest economy in the world.

Look at Japan. Its efforts to be a major contender in aluminum failed. Its steel industry has faltered badly. That country's monumental two-decade push to overtake the U.S. in computer hardware hasn't succeeded. Its software gap vis-à-vis the U.S. remains wide.

Does all this mean Japan is uncompetitive?

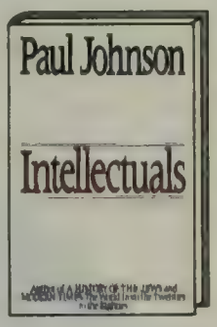
There is considerable gnashing of teeth over our missing out on being much of a factor in high-definition TV. So what? HDTV may be the 1990s equivalent of a fancy horse-drawn carriage in an era of automobiles (FORBES, *Feb. 20*). Moreover, while the U.S. isn't number one in making TV sets, we dominate the far larger, more profitable market of supplying the programming.

The free market works. Our economy has expanded by more than one-quarter in recent years. Real investment has grown even more.

There is one constructive step we can take: reduce the capital gains tax, which would stimulate tens of thousands of new ventures and innovations. It would be infinitely more potent than some R&D tax credit.

A MUST READ FOR STUDENTS—AND PARENTS, TOO

Here's a book that should have a cleansing influence on Western literature and culture for years to come: *Intellectuals* (Harper & Row, $22.50). It demolishes the reputations of some of the West's most influential—and pernicious—philosophers, such as Rousseau and Karl Marx. It lays out the dangerous political agendas of several modern cultural icons—and the often dishonest ways those agendas were advanced.



"Over the past two hundred years," writes author Paul Johnson, "the influence of intellectuals has grown steadily. For the first time in human history, and with growing confidence and audacity, men arose to assert that they could diagnose the ills of society and cure them with their own unaided intellects. Unlike their sacerdotal predecessors, they were not servants and interpreters of the gods but substitutes."

Johnson, an Englishman, has written a number of highly acclaimed works, including the now-classic *Modern Times*.

The author asks a simple question: How did each of these self-appointed saviors run his own life? "I want to focus on the moral and judgmental credentials of intellectuals who tell mankind how to conduct itself," says Johnson.

The answers are devastating. Most of these people were extraordinarily self-centered, cruel to those around them, guilty of gross hypocrisy.

Jean-Jacques Rousseau, whose writings helped lay philosophical foundations for Communism and Nazism, "believed he had a unique love for humanity and had been endowed with unprecedented gifts and insights to increase its felicity." Among his humanitarian acts, Rousseau placed each of his five newborn children in a notorious orphanage. None of the Rousseau infants survived.

Johnson's most devastating profile is of Karl Marx, who was guilty of "gross carelessness, tendentious distortion and downright dishonesty." At home, Marx was a living caricature of the exploitive capitalist: He never once paid his housekeeper.

Ideas, even crackpot ones, have consequences. An example is Jean-Paul Sartre, lionized on Western campuses until his death in 1980. "The hideous crimes committed in Cambodia from April 1975 onward [which took the lives of some 2 million people] were organized by a group of middle-class intellectuals who had studied in France in the 1950s, where they had absorbed Sartre's doctrines of philosophical activism and 'necessary violence.' These mass murderers were his ideological children."

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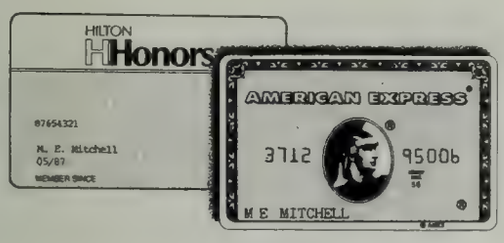

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HELPING YOU CONTROL YOUR WORLD

Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

THE COMMON MARKET—FRIEND OR FOE?

Within three years, American business will face new marketing conditions in one of our largest markets—conditions that may make it vastly more difficult to maintain the current volume of goods sold, or that could mean substantially *increased opportunities* for more sales with much less cost. The choice is largely up to Europe and the way in which the new Common Market is administered after the critical date of 1992.

That is the year the European Common Market will be formed, with the removal of customs, tariffs and nontariff barriers among all the major European countries, along with many other changes in individual country laws and policies—all designed to merge everything that involves the purchase and sale of goods and services into a single unit. That does not necessarily mean that those countries will automatically increase the trade they do with each other, nor does it mean that they necessarily will consciously turn to each other first for their purchases and sales.

But the American worry is that they will do just that. It is quite natural for companies to establish reciprocal relationships. That is, a company in France that needs something produced by either a German or an American company, all other things being equal, will tend to look to the German company because all governmental trade barriers between those countries will have been removed, if the Common Market succeeds in doing all the things its proponents claim for it. And once the French company has bought from the German company, it will expect reciprocal treatment when the German company has needs that can be supplied by the French company. There is nothing particularly sinister about this. Indeed it is the process that many of our own domestic companies use. If they are able to get what they want from a domestic seller, they will nearly always tend to use the domestic company because it is ordinarily much easier for a U.S. company to do business with another U.S. company.

All of this could mean a substantial loss of trade for American companies in European markets that now provide new buyers for many American sellers.

None of this need happen. There is nothing inherent in European countries now that requires European companies to stay within European boundaries in their buying and selling, any more than there is any law that requires American companies to buy American.

Also, it is not entirely clear that all members of the Common Market will give up their own sovereignty and ability to make their own decisions in some of the areas supposed to be unified and coordinated by and within the Common Market itself. England has already displayed a certain amount of unhappiness with some of the Common Market's proposed policies, which could control and override what has hitherto been considered British domestic policy.

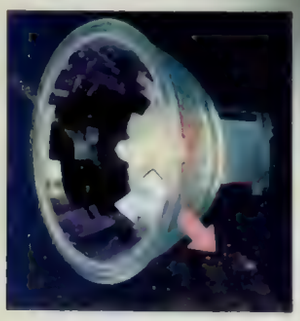
Nevertheless, with three years still to go before the Common Market is scheduled to take full effect, American companies would do well to look at all aspects of their international trade. Some feel, with considerable reason, that it will be easier for them to make sales in the larger, unified Common Market than at present. They now have to adopt different policies and practices for several different European countries if they want to do business there.

Other U.S. companies are acquiring, or planning to acquire, European partners, joint venturers or affiliates so that, should the Common Market develop protectionist tendencies and a desire to trade primarily within its own borders, our American companies can at least share a part of that trade.

What is completely clear, however, is that now is the time for American business to devote substantial skilled planning time and research to the new facts, as well as the new opportunities, that will confront them after 1992.

Shedding light on a natural phenomenon.

Leaves can separate light from heat. They reflect some of the heat, while the rest passes through them. They use only "cold" light in photosynthesis.



Schott's special glass reflectors also separate light from heat, allowing 85% of the heat generated by a light bulb to pass through the back of the reflector. The special silver dioxide coating which the lamp manufacturer puts on the glass reflects just the "cold" light, creating pleasant and natural lighting.

Concentrated light generates a great deal of heat. And because leaves are constantly exposed to strong rays of sunlight, they have a very special ability. To keep from drying out, they reflect a certain amount of the heat and allow the rest to pass through them. In photosynthesis, they use only "cold" light.

_____ Reflectors in low voltage halogen lamps also separate light from heat, but in this case the process works in reverse. With the addition of a silver dioxide coating, they reflect "cold" light and allow heat to pass through the wall of the reflector.

_____ This can only be achieved by using glass, because unlike metal, it allows heat waves to pass through it. But of course, this application requires a special kind of glass. It has to be highly heat resistant and able to withstand thermal shock – especially when used in halogen lamps where temperatures exceed 4532 °F.

_____ Special glass reflectors, available from Schott America, are just one example of how Schott's innovative development responds to specific needs. In today's world, special glass helps keep technology advancing.

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Edited by Howard Banks

UNCLE SAM WON'T DEFEND AGAINST RAIDERS

The big impediment is a lack of evidence of harm done

CORPORATE AMERICA KEEPS CLAIMING THAT recent takeovers and LBOS threaten U.S. competitiveness and pleads for somebody (Congress) to do something (defend them against raiders and arbitragers).

Typical is this from William Andrews, chairman of SSMC, Inc., to the recent National Association of Manufacturers directors' meeting: "The U.S. switch to debt is just churning to make a few people rich, while Japan and West Germany use debt to invest for long-term research and to buy market share."

Well, maybe so. But unfortunately for Mr. Andrews (who has been a takeover victim five times, and whose present company is now on the block), Congress will do nothing much.

The big impediment is a lack of evidence that connects short-run thinking by the institutions or anybody else—the concentration on quarterly earnings, say—with the recent heavy use of debt in the U.S. to fund mergers.

The House of Representatives is particularly loath to mess with the issue. It smarts still from being among those blamed for the Oct. 19, 1987 stock market crash—because of its attempt just days earlier to legislate limits on the use of debt in takeovers.

Fewer corporate tax dollars make it harder still

WIDELY TOUTED NOSTRUMS—LIKE VARYING CAPITAL GAINS to favor longer holding periods, especially for institutional investors—will be blocked because the Gramm-Rudman-Hollings deficit reduction law inhibits Congress from doing anything that might cost money.

Budget woes will be the excuse used to avoid redressing the tax bias that favors debt over dividends. In any case, cash-rich companies are upping dividends to slim their raider-attracting fat purses, tax bias or not.

Making it harder still for Congress to change the rules is a $10 billion shortfall last year from anticipated corporate income tax revenues. One reason for the shortfall: retirement of $129 billion of equity in 1988, up from an average $78 billion in 1984-87.

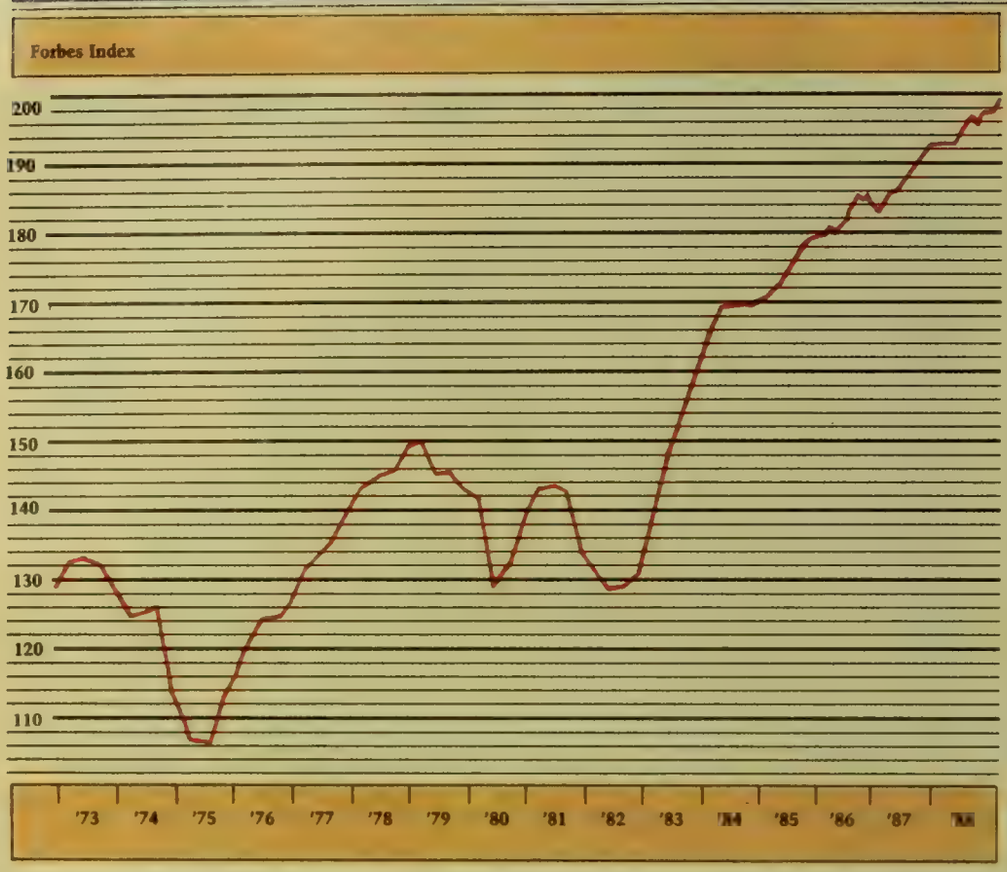
With Washington idle, several states may decide to intervene

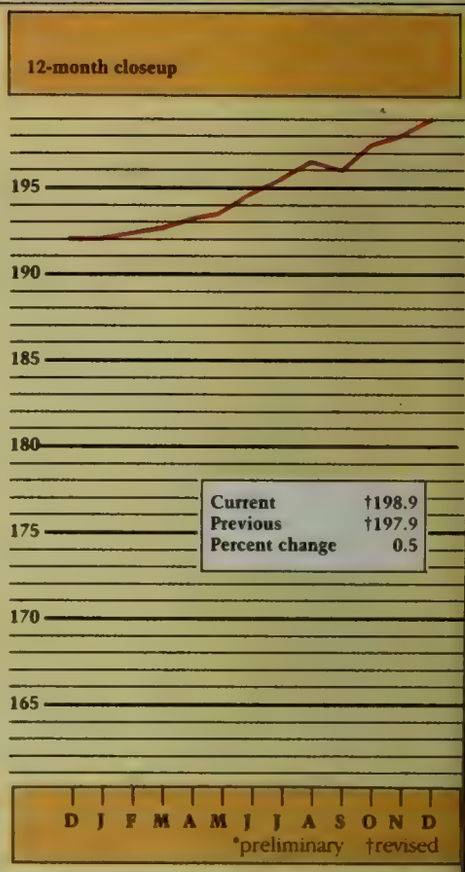
DELAWARE, LONG THE SANCTUARY OF MANY MAJOR U.S. corporations, boosted raiders' chances when its chancery court ruled that corporate boards could no longer use the argument that it wouldn't be "in the long-term interest" of the company to reject an unwanted offer.

Now, decisions must all turn on price, corporate defender extraordinary Martin Lipton told the NAM meeting. He calls it "the Delaware betrayal." But some state legislators are helping. Pennsylvania, Ohio, Indiana and Missouri have already rewritten their corporation laws. Delaware may eventually, too.

Because these new laws allow managers broad grounds to resist takeovers—not just in the interest of shareholders, but in the interests of employees, suppliers, local communities and of themselves as well—they have a risky side. Well-meaning state legislators could merely be opening a new means for entrenched managers to resist change.

The Forbes Index





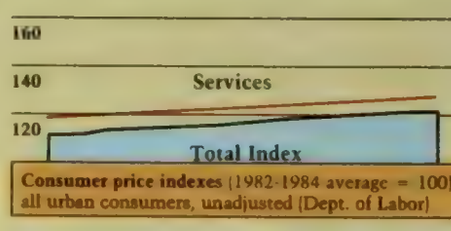
A penny earned but not saved. Growing employment levels helped push up personal income 0.6% in December, to $2.53 trillion. That's 10.9% above the December 1987 total. But a good chunk of this money will go toward paying off bills. Consumer installment credit rose 0.8% in December and 9% for all of 1988. Meanwhile, the producer price index (a measure of wholesale prices) surged 1% in January. This rise in prices, coupled with a low unemployment level (5.4%), may put additional inflationary pressure on the economy.

Manufacturers' inventories rose 0.8% in December, to $234 billion, as factory utilization reached 84.2%, the highest in over nine years. Final tabulations show the Forbes Index rose 0.5% in December and 3.5% in 1988.

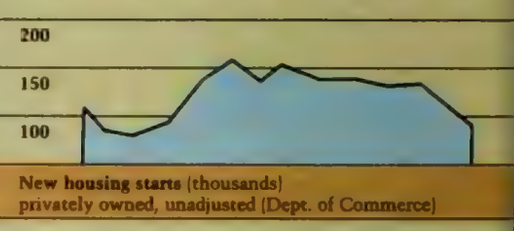
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

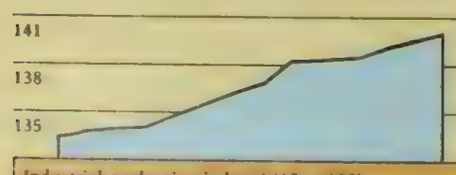
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right



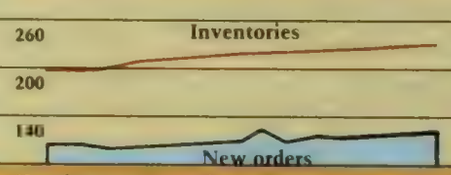
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)



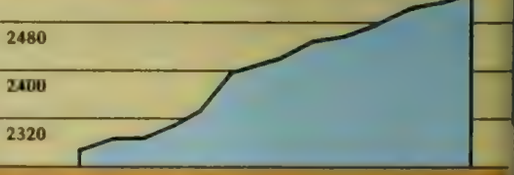
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



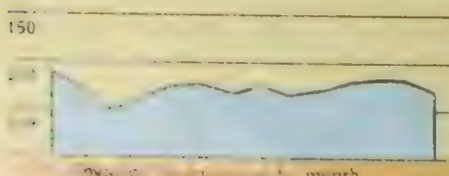
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)



Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



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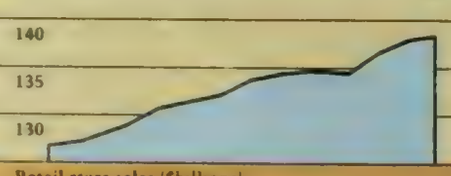
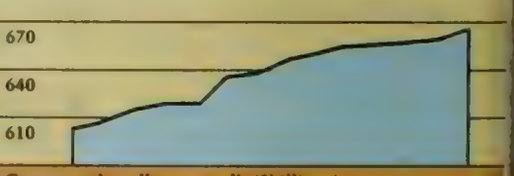


Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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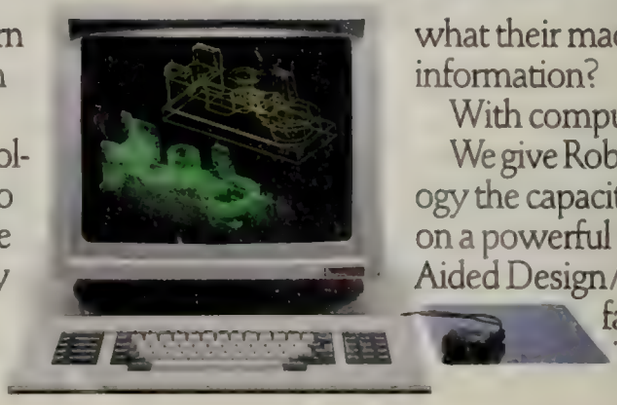

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It looks like Washington could break the impasse on Latin debt with a generous forgiveness offer to Mexico. It's an idea that makes sense for everyone—Mexico, the U.S. and the banks.

Giving a little to save a lot

Mexican President Carlos Salinas de Gortari

Without debt relief, how long can he continue his free-market ways?

By Edwin A. Finn Jr.

SECRETARY OF STATE James Baker wasn't just being diplomatic when he listed Mexico as a top priority in foreign policy. The U.S. Treasury is believed to be working on a plan that could cut Mexico's interest burden and debt principal by as much as 50%. Treasury officials are tight-lipped on the plan, but Mexican Finance Minister Pedro Aspe has quietly slipped into Washington several times since Bush's election in November for talks with top Treasury officials.

What's in the deal for the U.S. banks, few of whom have reserved more than 30% against their Latin American loans? Possibly guarantees. The debt that remains after a writedown could be guaranteed, by either the International Monetary Fund, the World Bank, the Inter-American Development Bank, or a new international debt agency set up with financial backing from Japan, West Germany and the U.S.

A writedown would obviously cause severe earnings pressure for some of America's largest banks. BankAmerica has a 28% reserve against loans to less developed countries. For the bank to write down its Mexican loans by 50% and maintain its reserves against developing countries at 28%, it would have to come up with an additional $545 million *(see table, opposite)*. Citicorp would have to come up with $598 million; Manufacturers Hanover, $529 million; Chemical, $522 million; Chase, $375 million; Bankers Trust, $286 million; J.P. Morgan, $290 million.

First Chicago and Security Pacific, by contrast, would require far smaller reserves. These figures don't allow for a tax benefit, which could cut the additional cash requirement.

How can the banks explain yet another earnings hit to shareholders? That's where the guarantee portion of Treasury's plan would come in. In effect, it would allow the banks to say, This is it, folks—the last time you'll ever hear bad news about Mexico from us.

The Treasury Department is unlikely to force banks to grant the writedowns. Of course, banks that don't accept won't get guarantees.

Any scaling down of the Mexican debts is no act of sentimental generosity. It is based on a realization that the fates of the U.S. and Mexico are inextricably intermingled. A starving and seething Mexico would threaten U.S. security and would send millions of refugees fleeing across our borders.

And in Washington's eyes, if any country has earned the reduction of debt, it's Mexico. The country's newly elected president, Carlos Salinas de Gortari, is committed to free-market policies and to opening the economy—as was his predecessor, Miguel de la Madrid. Even while asking for help from abroad, the Mexicans were doing a lot to help themselves. In an effort to cut inflation-producing subsidies, the Mexican government raised rates for electricity, telephone service and gasoline by as much as 90% last year.

If for Mexico, why not debt relief for other hard-pressed Latin American countries? "In Argentina and Brazil you have demagogues running for office who say they won't repay their foreign debts at all," says Harvard Professor Jeffrey Sachs, a financial adviser to several Latin American governments. "If we don't help responsible guys like President Salinas in Mexico, even our friends won't be able to stay in office."

The message to these other countries is: Do as Mexico has done. Cut government waste, liberalize your economies, join the international trading system, and then we will talk with you about debt relief.

Many Mexicans, angered by austerity, voted against the ruling party in last July's presidential elections. For the first time since coming to power in 1929, the moderate Institutional Revolutionary Party nearly lost the presidency. Salinas barely squeaked in with less than 51% of the vote. If Mexico's economic situation doesn't improve by 1993—or if the world plunges into recession—Mexico may end up with a leftist regime. That could force the U.S. to consider militarizing its southern border. What would be the effect on public opinion if U.S. forces were to turn back hungry Mexicans at bayonet point?

More pain?

At all but First Interstate, a 50% Mexican writeoff could cut profits.

Ten U.S. banks with largest loans to Mexico	Loans ($bil)*	Loan-loss reserves†
BankAmerica	$2.48	28%
Citicorp	2.30	24
Manufacturers Hanover	1.83	21
Chemical	1.80	21
Chase	1.50	25
Bankers Trust	1.30	28
JP Morgan	1.00	21
First Chicago	0.70	43
First Interstate	0.48	52
Security Pacific	0.35	42

*As of Sept. 30, 1988 †As a percentage of troubled loans to the Third World, as of Dec. 31, 1988.
Source: Prudential-Bache Securities.

Sound far-fetched? Consider this recent exchange before the U.S. Senate subcommittee on international monetary affairs. Senator Phil Gramm, (R–Tex.) said he wanted the Mexicans to move even faster in enacting free-market policies. "If they did that," he said, "within a month they wouldn't need our [financial] help."

"No, but they might need our army," responded Professor Sachs.

"I'm afraid they might," said Gramm, conceding the volatility of Mexico's situation.

A delicate part of any debt-relief package would be how far Mexico would go in privatizing state-owned industries, allowing the free inflow of foreign investment and opening up to more international trade. In all this Salinas faces opposition, not only from the left, but from traditionally anti-American intellectuals. He is not entirely a free agent—no more than is a president of the U.S.

David Burnett/Contact

Secretary of State James Baker
"Helping Mexico is in our interest."

Major progress was made last year, as Salinas stepped into the presidency. Mexico agreed to open its market to more U.S. steel, beer and textiles. Mexico also lowered its maximum tariffs from 45% to 20%. This year the U.S. and Mexico will launch talks to encourage foreign investment in Mexico and to prevent Mexicans from ripping off U.S. patents.

Under earlier regimes, Mexico contended it must make its own products—everything from refrigerators to batteries. But in fact such nationalism has done little besides preserve a monopoly for a handful of rich Mexican factory owners. As for the great mass of Mexico's people, this misguided nationalism has translated into high prices for shoddy Mexican-made goods. But now, with tariffs lower, Mexican manufacturers are being forced to keep prices down and upgrade the quality of their products to compete with imports from the U.S. and elsewhere.

The U.S. has more to gain through a debt-relief package than pacifying a potentially unstable neighbor. Over the next 20 years, the U.S. could face a severe labor shortage. Mexico, by contrast, has at least 5 million unemployed workers and will add as many as a million job seekers in each of the next five years. That's 10 million workers willing to work for $1 an hour, available to add value to U.S.-produced goods and services and to help keep U.S. products world-competitive. It is not important whether the Mexicans work in the U.S. or in U.S.-owned factories in Mexico. The important thing is that a better way be found to marry U.S. investment with Mexican labor.

President Carlos Salinas is a progressive thinker. Sensing which way the world is going, he sends his children to Japanese schools in Mexico City. If he won't always move as fast as Americans would like him to move, we must remember that he stands for policies that are beneficial both to his country and to ours. With interest payments reduced from $9 billion a year to $4.5 billion, experts figure that Mexico would be able to resume growth and attract back some of the capital that has fled for the safety of Yankee banks.

And, besides, replacing $1 worth of doubtful loans with 50 cents worth of solidly guaranteed paper isn't such a bad deal for the banks. ■

The Japanese have already become big players in the U.S. real estate market; so have the Taiwanese. Now . . .

Here come the Koreans

Jean-François Allaux

By Matthew Schifrin

IN WELL-TO-DO Korean families the wife often does more than manage the household and look decorative. Many of them manage the family capital and have become accomplished real estate speculators. At least one, the wife of former President Chun Doo Hwan, is under government investigation for such dealings.

Some of these shrewd *bok buin*, or speculator wives, are busily reading up on U.S. real estate investments. Early last month the South Korean government revamped its foreign exchange controls to allow Korean nationals more freedom to invest abroad. The Japanese had instituted similar changes in January 1986—about the time they, too, began entering our markets in a big way.

The new freedoms are part of a series of Seoul measures aimed at easing trade friction with Washington and reducing South Korea's $14 billion current account surplus. The announcement makes it possible for both Korean individuals and firms freely to invest in foreign real estate; only for purchases in excess of $2 million is a routine approval needed from the central bank.

"We expect at least $1 billion a year to go into U.S. real estate," says Darlene Ryan, an Arthur Andersen partner. Japan invested almost $9 billion in U.S. real estate last year.

A recent seminar on U.S. real estate held in Seoul by Arthur Andersen was so oversubscribed that two sessions had to be arranged to accommodate the representatives of the 150 large companies that attended.

What kind of real estate are these people after? Don't expect investment clones of the Japanese, who chase high-cost, high-visibility properties, especially New York and Los Angeles hotels and office buildings. Look for the Koreans to be bargain hunters, buying into depressed sections of major U.S. cities (FORBES, *Oct. 17, 1988*). Look, too, for them to keep a low profile. "Koreans will be more discreet in investing," says Los Angeles attorney Daniel Lee, who handles real estate investment deals for several large Korean companies.

Says Joseph McCluskey, vice president of New York's Helmsley-Spear Inc.: "At first we'll see a lot of small-scale stuff, $10 million deals. The Koreans will be active, not passive investors, seeking out joint ventures with Americans wherever possible."

So far the single hottest spot for Korean real estate investment is northern New Jersey, just across the George Washington Bridge from New York City. "Manhattan is just too crowded," says Y.S. Lee, an officer at $4 billion Korea Explosives Group, which is building its $10 million U.S. headquarters in central New Jersey.

Close behind the Northeast is California. According to President Suk Joon Kim, Ssangyong Group, a $6 billion construction firm, already has $50 million in U.S. properties completed or under construction. Included are a 200-suite hotel in Anaheim and a San Francisco shopping mall.

Samsung, Korea's biggest conglomerate with $24 billion in revenues, has recently purchased a building in Los Angeles and is seeking another in New Jersey. Lucky-Goldstar is building a $9 million headquarters in Englewood Cliffs, N.J. and is negotiating with Bechtel Corp. to make an investment in that firm's $40 million Beneficial Plaza in Los Angeles.

Among the biggest U.S. beneficiaries of all this will be mom-and-pop realty brokerage firms founded, owned and run by Korean immigrants. Thus, Cho Hyun Shin of New York's Korea Real Estate Inc. reports that in the last month nearly a dozen big South Korean banks and corporations have contacted him about spending from $6 million to $200 million on Manhattan buildings. Not Park Avenue and Wall Street glass towers but buildings in lower-rent commercial districts like the 34th St.-Herald Square area. It's a small world, and getting smaller every day. ■

The Bass family has already made well over $1 billion on its investment in Walt Disney Co. Is Sid Bass ready to take profits? Not on your life. Here's why.

Creativity, with discipline

By Howard Rudnitsky

FORT WORTH BILLIONAIRE Sid Bass isn't given to discussing his investments. But last year Bass did tip his hand about his family's 18.7% stake in Walt Disney Co. Bass told Disney's chairman, Michael Eisner, that the family would keep its Disney stock until the end of this century. The implication is clear: Bass is not ready to cash in his $1.8 billion investment in Disney stock—an investment that cost around $400 million five years ago. Obviously, Sid Bass thinks Disney stock still has a long way to go up in the 1990s, even though the shares are already selling for a rather rich 19 times latest 12 months earnings.

At $10 billion, Disney's market value is already by far the largest of all the entertainment companies'—half again as large as that of second-place Warner Communications and three times as valuable as once-mighty MCA's *(see table, p. 42)*. What, then, do the Basses see on Disney's horizon that makes them want to retain their position?

They are betting that Disney's highly effective management team will continue to expand revenues from Disney's unique consumer franchise base by at least 20% a year over the next five to ten years. More, they are betting the franchise itself will grow more valuable as time passes.

In 1988 Disney's cash flow from operations—mainly from the amusement parks, resorts and filmed entertainment—exceeded $1 billion. This year, aided by major new amusement park attractions like the MGM Studio Theme Park and 12 major new movies, Disney's cash flow should be $1.3 billion (around $9.75 a share), a 21% gain over 1988. Even at today's lofty prices, Disney shares still sell for around eight times operating cash flow, its average of the last five years.

Disney's management is using this cash flow to expand the earnings base. Between 1987 and this summer Disney is spending well over $1 billion on park attractions in California and Florida. In addition Disney recently acquired a Los Angeles independent TV station (KHJ) for $320 million, and spent $160 million to buy Wrather Corp., owner of Anaheim's Disneyland Hotel. It also has opened 13 new retail stores selling such high-margin Disney products as clothing and toys, and intends to open 77 more by 1992.

That's not all. Between 1988 and 1992 the company will develope 10,000 hotel rooms, at a cost of around $1 billion. In Europe, Disney is developing, jointly with Rupert Murdoch, the Disney Channel and Sky Movies, a satellite broadcast system that will beam programming into 1 million homes in England and Ireland.

As the recent decision to boost the dividend by 20% (to 48 cents a share) suggests, Disney will have no trouble at all financing this expansion. Despite all the spending, Disney's debt load has fallen from nearly $590 million in 1987 to about $435 million—a very low 16% of total capital. Disney's cash hoard is currently nearing $1 billion, though because of heavy spending it will decline somewhat in the coming year before beginning to climb again next year.

Disney today is run by a gang of three: its boyish-looking chief executive officer, Michael Eisner, 46; President Frank Wells, a 56-year-old lawyer; and Chief Financial Officer Gary Wilson, 48.

Designers planning Disney's $2.1 billion Euro-Disneyland park
For a mere $200 million, Disney gets 49% of the equity.

The magic is back in the kingdom

A stock market laggard before the Bass family brought in new management in 1984, Disney has since become the market value leader among the four big entertainment companies.

Company	1988 revenues	Recent market capitalization ($mil)	Long-term debt[3] ($mil)	EPS	Cash flow per share	Recent price	Price range 1987–89	Recent P/E	Recent price/ cash flow
Walt Disney	$3,438[1]	$10,082	$436	$3.80	$7.83	73⅜	82½–41¼	19	9
Gulf & Western	5,108[2]	5,004	1,390	3.21	2.38	41⅞	46¾–29⅞	13	18
MCA	3,024	3,550	1,213	2.26	2.74E	48⅝	64½–30	22	18
Warner Communications	4,206	6,312	581	2.65	3.68E	39½	39½–17½	15	11

[1]Fiscal year ending 9/30/88. [2]Fiscal year ending 10/31/88. [3]As of 9/30/88, except Gulf & Western, which is as of 10/31/88. E: estimate.

If Wilson is the least known of the three, he is by no means the least important. As Eisner told Disney shareholders two years ago: "I have always believed that the creative process must be contained in what we call the 'financial box,' financial parameters that creative people can work in—but the box is tight, controlled and responsible. Gary Wilson has the key to the 'box.' "

Wilson was wooed away in 1985 from Marriott Corp. With him came two other Marriott executives, Neil McCarthy and Lawrence Murphy, both of whom now hold key strategy and planning positions at Disney.

To Wilson falls the job of financing Disney's ambitious commitments. Last year he shrewdly squeezed more money from Oriental Land Co., the Japanese company that owns the wildly successful Tokyo Disneyland (over 60 million visitors since it opened in 1983). Disney's former management failed to obtain an equity participation in the park, or even royalties on the use of Disney characters, settling for royalties ranging from 5% to 10% of park revenues.

Last April Wilson worked out a deal that will reduce Oriental Land's royalty payments but will yield $723 million in immediate cash from Oriental. This will also lessen the impact of currency swings on Disney's cash flow and earnings.

During his 11 years at Marriott, Wilson learned the value of taking in partners and asking them to put up much of the money to develop assets and future cash flows. Wilson is using the same technique at Disney.

Silver Screen Partners (FORBES, *Mar. 21, 1988*) is an example. These independently sponsored film production limited partnerships finance Disney movies on terms favorable to Disney. Silver Screen has provided about $1 billion in relatively cheap money for Disney's filmmaking.

In Disney's real estate development deals, Wilson's partnership techniques have been effective in permitting Disney to enter huge projects without burdening its balance sheet with debt. Take, for example, the two new hotels (the 758-room Swan and the 1,511-room Dolphin) and the convention center in Orlando. Wilson has lined up Tishman Realty & Construction Co., Metropolitan Life Insurance Co. and a large Japanese company, Aoki Corp., for the financing of the $375 million outlay. The properties will be run by Westin Hotels and Sheraton. For putting up its name and the raw land, Disney will receive royalties and fees on hotel and convention center revenues, which could amount to $10 million a year.

The largest project in Disney's future is, of course, its $2.1 billion Euro-Disneyland theme park. Here, too, Wilson is getting other people to put up the development money. Disney is providing only $200 million for 49% of the equity capital in the company that will operate the park, and 17.5% of a French private partnership that will own the land under the park.

The French government fought hard against Spain to win Euro-Disneyland and will lend the project about $800 million for 20 years at a fixed 7.85%. The French government is also selling the project about 4,800 acres only 20 miles outside of Paris at early 1970s agricultural values—meaning not only that the land is cheap, but that property taxes will start from a very low base. The government has even agreed to apply low value-added tax rates to the park's revenues.

Flowing from Euro-Disneyland to Disney directly will be management fees equal to 3% of revenues, plus royalties ranging from 5% to 10% of revenues, depending on the type of good or service. On overall park revenues estimated at up to $1 billion, fees and royalties could be $100 million in the first full year of operation.

While the Basses and other investors await the Euro-Disneyland payoff, Disney's Florida and California amusement theme parks are already cash machines that generated some $700 million (around $5.25 a share) in pretax cash flow last year. Park attendance was sluggish last summer, but this May a major new gated attraction will open in Orlando: the MGM-Disney Studio Theme Park, which cost $500 million. Later in the year, Typhoon Lagoon and Pleasure Island will open in Orlando, to be followed in 1990 and 1991 by several other new attractions in Florida and California.

If there is a cloud over this sunny company, it is the fear—indeed, the likelihood—that Disney's hand in film production will go from very hot to cold: Consistency in producing highly profitable films is something no one has recently achieved. Disney has held an especially hot hand the past few years. But even if the new movies falter, the old ones will still bring in huge amounts of revenue.

Eisner recently told analysts and money managers that Disney's foreign distribution, TV production and syndication, Disney Channel and home video businesses are all generating growing amounts of cash. Last year Disney's home video led the industry, with $300 million in revenues.

The Bass family bought into Disney in 1984 and shortly thereafter brought in Michael Eisner from Paramount Pictures Corp. to serve as chief executive. Shrewdly recognizing the company's hidden values, raider Saul Steinberg, with backing from Drexel Burnham, had been moving in. Steinberg took a modest amount of greenmail profits, $32 million, to go away, and the Basses rode up as white knight. In this case, the white knight decided to stay and become part of the family. For what could the Basses buy with the proceeds of their Disney stock that would be as promising an asset as the stock itself? ■

Margaret Thatcher and Nigel Lawson are discovering that a balanced budget is something of a mixed blessing.

Britain's mixed blessing

Cavendish/Reflex Picture Group

Patrice Cotteau/Keystone-Picture Group

Prime Minister Thatcher and Chancellor Nigel Lawson
The budget surplus rose and the trade account deteriorated.

By John Marcom Jr.

MONEY, to quote George Bernard Shaw, isn't the root of all evil; lack of money is. Yet there are problems associated with a surfeit of money, too.

Consider the predicament in which Nigel Lawson, Britain's Chancellor of the Exchequer and Margaret Thatcher's top economic policymaker, now finds himself. Last March, Lawson jubilantly presented Parliament with a budget featuring sweeping tax cuts and—wonder of supply-side wonders—a solid surplus. Eat your heart out, George Bush.

But before the Tories could uncork their (imported) champagne, fiscal problems emerged elsewhere. Britain's balance of payments deficit ballooned, and interest rates and inflation surged. Inflation in the U.K. is now above 7%, and climbing. Bank base rates, the peg for short-term lending and deposit rates, are 13%. The current account balance—the best measure of overall trade performance—ran $25 billion in the red in 1988; proportionately that's even worse than in the U.S.

Food for thought here for those in Congress and elsewhere who advocate higher taxes as a means of fighting the so-called twin deficits. Turns out the budget and foreign-payments deficits may not be twins at all. "The twin deficits are not a mirror image of each other," says David Kern, chief economist at National Westminster Bank in London. "You cannot be absolutely certain that if you resolve the one, you will resolve the other."

Confirming Kern's point, a similar deterioriation in the balance of payments has accompanied improving government finances in Australia and Denmark over the last few years.

Why is the British trade balance deteriorating in the face of central government surplus? Because the economy is booming and sucking in foreign goods. How can it boom when the government is taking so much money out of the economy? The answer is that the British people have stopped saving. The personal savings rate, a little over 1% last summer, makes the U.S. figure of about 4% at the time seem sky-high.

Last summer Lawson conceded that the boom was "too much of a good thing," but at first he moved only gradually to cool things down with higher interest rates. His reluctance reflected concern that abruptly forcing up rates would push sterling too high—shades of the strong dollar in 1984-85. Many economists now wish

he had worried less about sterling and tightened credit sooner.

By forcing short-term interest rates up quickly and sharply, Lawson can throw a lot of cold water on consumer spending. This is because almost all British mortgages are of the variable-rate variety. The mortgage rate has climbed from 11.5% last summer to 13.5% now, meaning that a family with a typical $70,000 mortgage must now pay around $700 a month to service the debt, as against $600 last summer. That's $100 the family can't spend on cars and champagne.

Note, however, that unlike the U.S. Consumer Price Index, Britain's Retail Price Index includes mortgage interest costs. Lawson says increased mortgage interest alone has added two points to the U.K.'s 7% inflation. So inflation rises as a result of Lawson's efforts to douse inflation.

The chancellor now finds himself in a quandary as he puts the finishing touches on the budget for the fiscal year beginning Apr. 1. Many Britons would like Lawson and his boss to throw a few billion pounds of the surplus at schools, the health service and the country's bridges and roads. But this goes against Mrs. Thatcher's determination to continue to transform the economy through privatization. London's airports have been transferred to private ownership, and the tunnel to France is a private venture. Toughest of all, she is trying to improve the efficiency of the National Health Service—without altering its sacred public ownership.

Lawson and Thatcher accomplished one goal last year, slashing top marginal income tax rates to 40%. Their remaining commitment is to reduce the basic rate, which most people pay, to 20% from 25%. But Lawson's hands are tied this year because tax cuts would be seen as inflationary, inviting a political outcry, unsettling financial markets and dashing hopes of cutting interest rates soon.

Thus boxed in, Lawson may lop only a percentage point or two off the basic tax rate while increasing some exemptions. That would still leave a budget surplus of about $26 billion, nearly 3% of British economic output. The money will probably be used to retire more of the national debt. In the year ending Mar. 31, Her Majesty's Treasury is expected to retire nearly $11 billion, net, of the country's debt. Yet interest rates are higher than in the U.S.

So much for the idea that if the U.S. could just balance its budget through higher taxes, all our economic problems would disappear. ■

President Bush wants to increase NASA's budget 22%, to more than $13 billion, mainly to build a space station so men can live in orbit and go to Mars. Is this the best use of our space budget?

Science fiction

By Howard Banks

PRESIDENT BUSH's proposed funding increase for the National Aeronautics & Space Administration ignores a sharply critical assessment of NASA's plans by the prestigious U.S. National Academy of Sciences and the National Academy of Engineering. It also seems to overlook the largely unreported but extremely discouraging experience that the Russians have had with their cosmonauts.

The Russians have the endurance record for long stays in weightlessness, having kept two cosmonauts spinning around the earth for a full year until they were brought back in late December. This followed a 326-day mission by one cosmonaut in 1987. Unfortunately, these Soviet cosmonauts do not emerge from this experience healthy and hearty, as in some science fiction movie.

Chas. B. Slackman

In December, Oleg Atkov, a former Russian cosmonaut who now heads the Moscow cardiology research center, stunned a space medicine seminar organized by the Annenberg Foundation for Health Sciences, Rancho Mirage, Calif. Atkov revealed that the Soviets' extensive experience shows that humans cannot now stay weightless in space more than 12 months or so without risking permanent physical damage *(see box, p. 48)*. The Russians, it turns out, are disoriented and weak when they come down. Atkov, who himself spent 235 days in orbit in 1984, spoke just days before the Russians returned their latest crew to earth.

"We are at or will soon approach a time limit which will require major design changes to protect the human organism," he said. The problem is gravity, or rather the lack of it, in space. Russian experience suggests the need to replace at least part of the earth's pull on humans to keep their muscles toned and their blood flowing normally, among other things, before man can jump off to Mars.

NASA's scientists say artificial gravity could be created by spinning the spacecraft. Remember the gently revolving wheel in the Stanley Kubrick movie *2001*? Unfortunately, that's just a movie; Mars is a two-year trip at best, and nothing NASA has on the drawing boards could permit this sort of space extravaganza, which is, the National Academies point out, the space agency's main justification for the space station.

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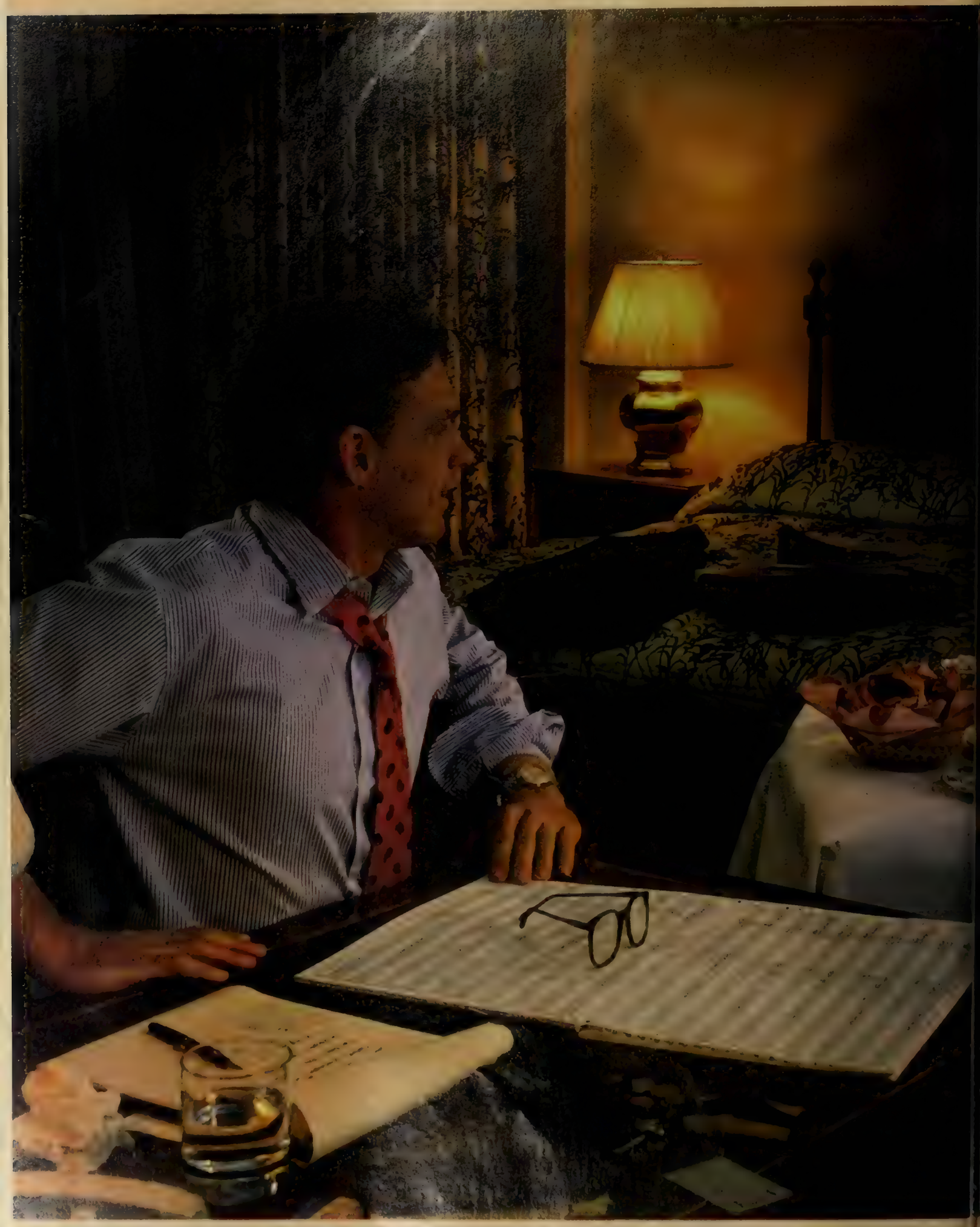

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The harsh realities of space

In the Soviet experience with long space missions in zero gravity, blood and body fluids rush to the head and upper chest (observe the puffy faces and strange hunched posture of cosmonauts and astronauts as they orbit earth). Muscles atrophy, and bones, especially in the legs, deteriorate. Motion sickness can be a problem, and many cosmonauts find they don't know at times which way is down, or up. In addition, their space capsule soon becomes an enclosed breeding ground for all of the bugs and bacteria that humans generate on earth. Anything much beyond a simple cold cannot yet be dealt with in space (doctors aren't even sure how drugs act under weightless conditions).

From their many long-stay manned missions, Oleg Atkov, the former cosmonaut who now heads the Moscow cardiology research center, told the Annenberg Foundation seminar that the Russians have concluded there are limits to the effectiveness of exercise and special space suits in overcoming the loss of muscle and bone in weightlessness. Cosmonauts typically spend around three hours a day exercising, running on a treadmill or bicycling, or working their muscles against rubber straps. Except when sleeping, they wear uncomfortable so-called Pingvin suits, which use a system of elastic cords, straps and belts to apply upward tension to the legs (to try to duplicate standing on earth). When they're not in a Pingvin suit, cosmonauts wear vacuum trousers, designed to suck blood and body fluids back down from the upper chest and head.

Bone mass is lost steadily through urine. Adding extra calcium to the cosmonauts' diet increases the already high risk in space of forming kidney stones. Soviet Academician Oleg Gazenko, of the U.S.S.R. Academy of Sciences, admitted to the Annenberg seminar that some cosmonauts had suffered painful kidney gravel.

All this is, of course, aside from the severe psychological strain that results from long stays in cramped quarters (the Mir station is about 35 feet long and 7½ feet in diameter). There are rumors of an attempted suicide in space by one Soviet cosmonaut.

NASA's life scientists say the Soviet experience shows that it usually takes three months to adapt fully to weightlessness and that performance deteriorates after around six months. (Remember, the longest American stay in weightlessness was 59 days on Skylab in 1973.) What nobody will know for many years is whether there is any permanent damage to the leg bones or to the spine.

Orbiting earth is tough enough, but what will it be like on a mission to Mars? "The psychological pressure will be a quite different story, when the crew can see earth only as a star, knowing that there's no quick way to return. Even telephone-style calls home will be impossible as the distance adds minutes of delay each way to radio signals," says Atkov.—**H.B.**

Novosti/Gamma-Liaison

A Soviet cosmonaut being lifted from a space capsule last December
Living in orbit is a lot tougher than in the movies.

mans can tolerate being spun continuously only at the rate of one revolution a minute. In this circumstance, providing roughly the same gravity as earth's for extended space living or travel would require that the spacecraft be 10 miles in diameter. In practice, it might mean mounting the living quarters at one end of a 10-mile tether with some counterbalance at the other, and spinning the whole assembly. It would be a tremendous—and tremendously costly—piece of engineering.

"Trust me," the space agency is saying. Yet top scientists (those who are not beholden to NASA, that is) here and in the U.S.S.R. agree that what is needed is not more plans for space station hardware but solid research in what the space techies call "life science," meaning serious study of what is required to allow humans to survive two to three years in space. To date, these scientists in the U.S. have received only token funding (a proposed $124 million from NASA's $13.3 billion budget for fiscal 1990; the biggest percentage increase this year is for a search for extraterrestrial life).

None of this is to say that space research and exploration are not worthy objects for government support. But the National Academies severely question NASA's concentration on overambitious manned missions, which has led to what they describe as an unsustainable and "brittle" national space program. Those manned "space spectaculars" should stand on their own as separate budget items, say the Academies. That way, the space station, and the mission to Mars that NASA sees as its follow-up, can be thoroughly debated and, most important, researched, before it is funded. Among other recommendations: Separate and steady the funding for space science, especially studies of earth; increase privatization and reduce the federal near monopoly in space; and separate more clearly the military and civilian space program. The shuttles will wear out and could suffer another disabling (not necessarily catastrophic) accident. There should, therefore, be much better dependence on unmanned rocket launchers. (For a longer analysis of NASA's weaknesses, see FORBES, *Feb. 8, 1988*.) ■

Where's Richard Rainwater putting his money these days? Close to home and in a business that is generally out of favor.

Diamonds in his own backyard

By John H. Taylor

RICHARD RAINWATER, Fort Worth's secretive investment wizard, made hundreds of millions of dollars for the Bass brothers before striking out on his own in 1986. While working for the Basses, Rainwater played a key role in building the brothers' fortune from about $50 million in 1970 to more than $3 billion 16 years later. Along the way, he amassed a personal fortune worth at least $225 million.

Such is his status in Texas that virtually nothing goes up for sale—MCorp, the floundering commercial bank; Southmark, a struggling Dallas-based real estate conglomerate; or the Dallas Cowboys—without Rainwater's being rumored as a possible buyer.

What's Rainwater doing? He wouldn't talk with FORBES, but he agreed to let associates do so. They left no doubt Rainwater is concentrating his investments these days, chasing energy projects with the zest of a wildcatter. Rainwater has major stakes in two fast-growing public companies, Houston's Energy Service Co. and Fort Worth's Wolverine Exploration. He also founded a limited partnership that will invest up to $600 million in natural gas companies and natural gas properties.

Rainwater, 44, directs his assault from the same 33-story Fort Worth tower he occupied while working for the Basses. His strategy is deceptively simple. He is taking advantage of still-depressed prices to position himself for what he thinks will be a big rebound in oil and gas prices. "Back in the 1970s Richard was buying up real estate investment trusts when everyone hated them," says his partner, Thomas L. (Tad) Kelly II. "Now a large percentage of our deals are energy related."

Stepping into Rainwater's glass-enclosed office is like entering a high-security classroom. A receptionist pushes a button to unlock the door for visitors. Rainwater, often described as a deal junkie because of his penchant for juggling four or five at once, is the center of activity. He and his partners mark up prospective deals on white plastic walls with felt pens.

In late January Rainwater was pondering the acquisition of a $30 million energy service business that derives most of its sales from overseas. Walls were filled with numbers: cash flow projections, debt obligations, profit estimates. "Every deal is like a Harvard Business School case study," says a former Rainwater partner.

Rainwater's capacity for absorbing figures is legendary. D. Dale Wood, former chief executive of Crutcher Resources, will never forget the first time he met Rainwater. Wood wanted Rainwater to join him in buying a small pipeline equipment business. As Wood made his sales pitch, Rainwater kept taking calls on his speaker phone. Wood was beginning to simmer. "Richard didn't seem to be paying any attention," he recalls. "But after a half-hour he summarized in three minutes everything I'd told him. He'd never taken a note."

Rainwater did the deal with Wood, and he and his fellow investors pocketed $22.5 million on a $2.5 million investment when they sold the company three years later.

Once he spots a promising company, Rainwater seeks a top-notch chief executive to run it. Rainwater pays him only a modest salary and invariably insists his new chief executive make a large personal investment in the company. For example, William Smith invested $1 million in Wolverine Exploration when he became chairman and chief executive. "Richard's genius is aligning everyone's interests—the owners, the managers, the common shareholders," says Charles Cobb, former chairman of Boca Raton, Fla.-based Arvida Corp., which Rainwater acquired with the Basses in a 1983 leveraged buyout and then sold to Walt Disney Co. a year later at a huge premium.

How does the Rainwater strategy work in practice? Consider his investment in Amex-traded Energy Service Co., known as Ensco. In the mid-1980s the $35 million (sales) drilling company was known as Blocker Energy. The Houston-based company lost $140 million between 1983 and 1985, had gone through several recapitalizations and was sinking under more than $100 million in debt. Its lenders were in a quandary. "Blocker had rigs all over the world," recalls Wood, who helped Rainwater analyze the deal. "For the banks to get them back to the

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U.S. would have cost more than the collateral was worth. Richard had them right where he wanted them."

In December 1986 Rainwater got the banks to swap the debt for $12 million in cash and a small equity position. Rainwater wound up with 29% of the common, and he and his partners got 90% of the preferred. He quickly hired Carl Thorne, a highly respected drilling executive, to rebuild the company.

Thorne bought on- and offshore rigs at 10% to 25% of their original cost. He hired seasoned energy executives. But how to keep the business afloat while drilling was depressed? Thorne bought energy-related companies like a marine service division and a tubular goods distributor that provide cash flow while the drilling industry struggles. "Our idea is to build a world-class company and create jobs for people who will be sorely needed by this industry when it turns around in a couple years," Thorne says.

"Richard's genius is aligning everyone's interest, owners, managers and common shareholders," says a former partner.

Wolverine is a similar deal. In 1987 Rainwater purchased the struggling Fort Worth exploration company's $16 million bank debt at a 30% discount. He got rid of $100 million in subordinated debt by swapping common stock and warrants for it. Rainwater and two others lent the company $3 million (since repaid). Rainwater wound up with 13% of the common as well as 29% of the warrants. William Smith, former Union Pacific vice chairman, was brought in to run the company.

Wolverine is committed to spending up to $200 million drilling wells on properties owned by Union Pacific. Smith considers the properties among the most valuable in the U.S.: More than 25% of the 92 exploratory wells Wolverine has drilled have been producers, a very high success rate. One field in the Gulf of Mexico has great potential, but it will be another year before the size of the field is determined. Says Smith, "We're making the strategic moves to establish ourselves at a time when you can drill wells for 60% to 70% of what you could during the boom."

Last November Rainwater plunged again into gas. He formed Natural Gas Partners, a Connecticut-based limited partnership directed by former First Boston managing director R. Gamble

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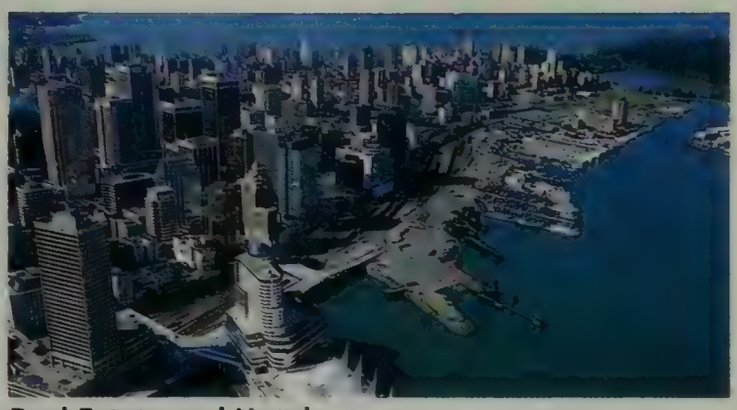

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Baldwin. The investment group has begun investing $100 million in securities in natural gas companies. It also plans to finance production and gathering activities. About $97.5 million of the original equity investment came from Equitable Life. Lenders are expected to provide another $100 million. Rainwater and his partners put up a scant $2.5 million and got back a large piece of the equity. Such is Rainwater's mystique.

Rainwater has already recovered his investment on Wolverine and Ensco, leaving him nothing but upside. But he is hardly a guy who is satisfied breaking even. His greatest joy seems to come from picking up the phone after everyone cashes in and calling his partners to ask delightedly, "How's it feel to be rich?" ■

In some ways, Egghead Inc.'s costly expansion strategy in computer software makes sense. But more likely it's a case of too much too soon.

Soft in the head?

By Laura Jereski

IN THE FIVE YEARS since it was founded, Egghead Inc. has become the largest specialty retailer of software in the country, with sales expected to hit $350 million by the end of its fiscal year ending in March. Some 10% of U.S. software sales are made by Egghead Discount Software Stores or by Egghead's corporate sales staff. Egghead's revenues are about three times those of its nearest competitors, Software, Etc. and Corporate Software.

But profits? Better not ask. Instead of the $1 per share, $15 million, bandied about at the initial public offering in June, the company will be lucky to make over 50 cents this year.

Profits have suffered in good part because of the breakneck expansion by Egghead's founder and chairman, Victor Alhadeff. The 42-year-old a Seattle native, a graduate of the University of Washington, sold tax shelters early in his career. In the last nine months alone, he has added 64 stores to the 120 that are already open and 60 salesmen to the direct sales force of 132. No wonder selling and administrative costs have more than doubled in 12 months. The [illegible] and [illegible]s, and of training [illegible]eed salespeople, has put pressure on operating margins, which have slipped from 4.5% last year to a likely 3.7% this year.

In some ways, this costly expansion makes sense. In a fast-growing new business like this a good case can be made for saturating the market before competitors can move in. But some people think Alhadeff has gotten ahead of himself. His strategy is partly built on volume buying to get the best price out of vendors, such as Lotus and Ashton-Tate. But that means carrying big inventories, no small risk in today's volatile market for software.

Hints of mounting inventories and dashed earnings expectations have awakened the shorts: Short positions in the stock had climbed to more than a million of the 4.1 million shares in public hands by mid-December, up from 750,000 the month before. (Officers and directors hold over half the shares; other holders include Chancellor Capital Management as investment manager and T. Rowe Price Threshold Funds.)

Pushed down perhaps by the shorts, the stock, which went public at $17 and reached $21.50 last summer, has rebounded only slightly from a series of new lows. Recent price: 10¾.

Peter Sis

The shorts clearly are betting that Alhadeff's frantic effort to expand won't pay off in earnings. They are also well aware that Alhadeff's previous record has been spotty. Starting at age 24, he managed to raise a half-billion dollars selling oil and gas tax shelters. Along the way, he gained a taste for the good life, building a $24 million office building near Seattle for his companies and a $4.2 million mansion for himself. Alas, his investors didn't do so well: Most lost more than three-quarters of their money when exploration was unsuccessful and oil prices collapsed. One of the five suits against him and his companies alleging misrepresentation and fraud is scheduled to begin trial this month. (The only two others that went to trial were decided in his favor, according to Alhadeff.)

No doubt, Alhadeff has hit upon a winning business concept this time. He has yet to show that he can carry that concept to financial success. ■

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Protectionism wasn't part of Bush's campaign platform, but events may be pushing his Administration in that direction.

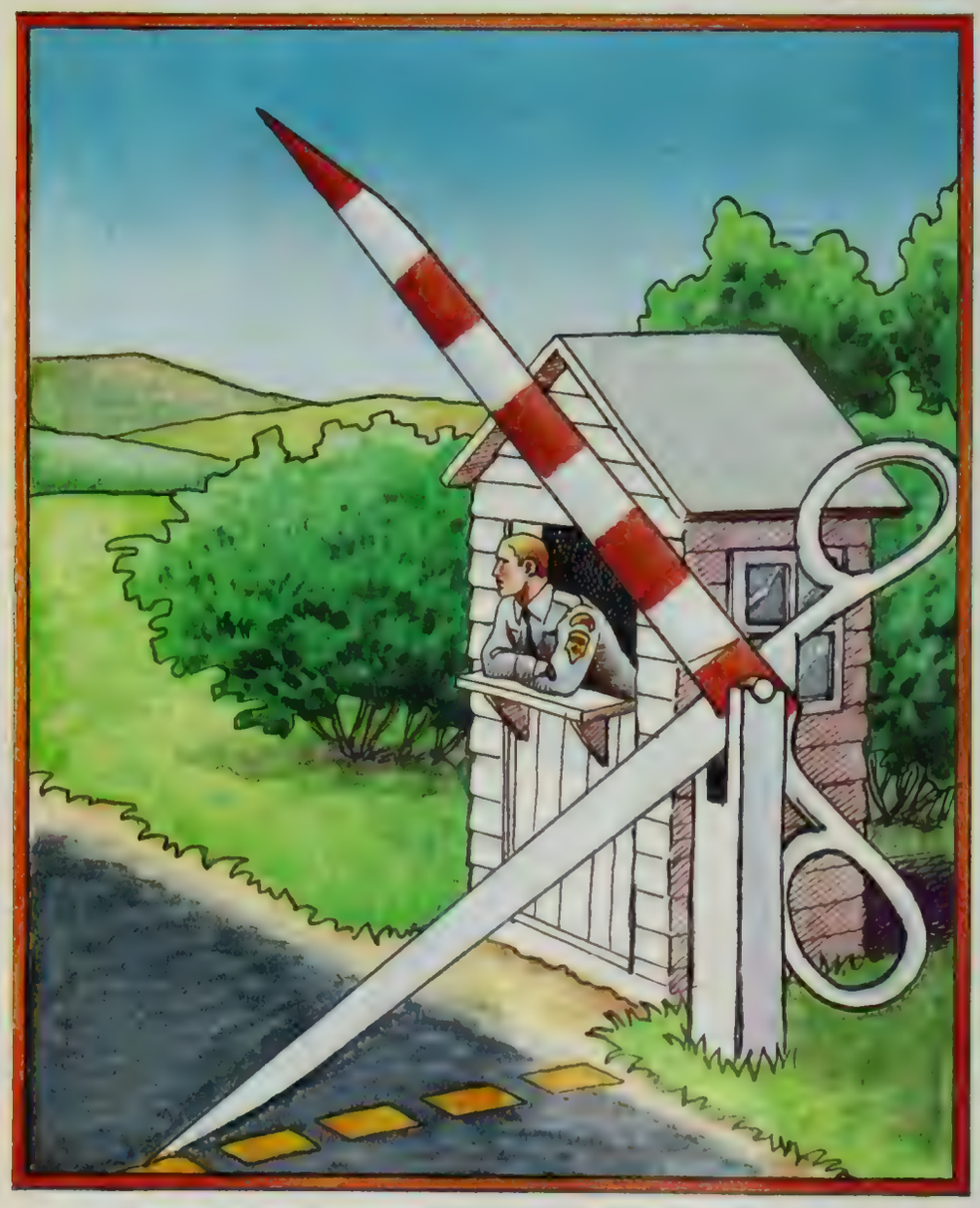
A new cold war?

By Edwin A. Finn Jr.

IS THE U.S. SLIPPING out of its cold war with the Soviets only to slip into a cold war with its trading partners? Nearly every day since the start of this year, Europe, Japan and the U.S. have threatened one another with tariffs, quotas or outright bans on products ranging from beef to telecommunications equipment.

With luck this brinkmanship won't trigger a full-scale trade war. But it could easily lead to a patchwork of protectionism that would penalize economic efficiency and, in the U.S. at least, could be based more on the clout of certain congressmen than on an industry's importance to the economy.

Jean François Allaux



Depending on how you look at it, Japan and other Asians are either unfair competitors or competitors who work harder than others are willing to, and so must be kept out to protect other people's living standards.

Whatever the explanation, throughout the 1980s European and American business executives have grown increasingly frustrated by their inability to compete with Japanese rivals, either at home or in Japan.

The complaint that Asian countries don't play by Western rules, that Asian governments simply offer their companies too much help, is often—but not always—justified. In the past decade, the Japanese alone have run up a total trade surplus of over $300 billion with the U.S. and $150 billion with Western Europe.

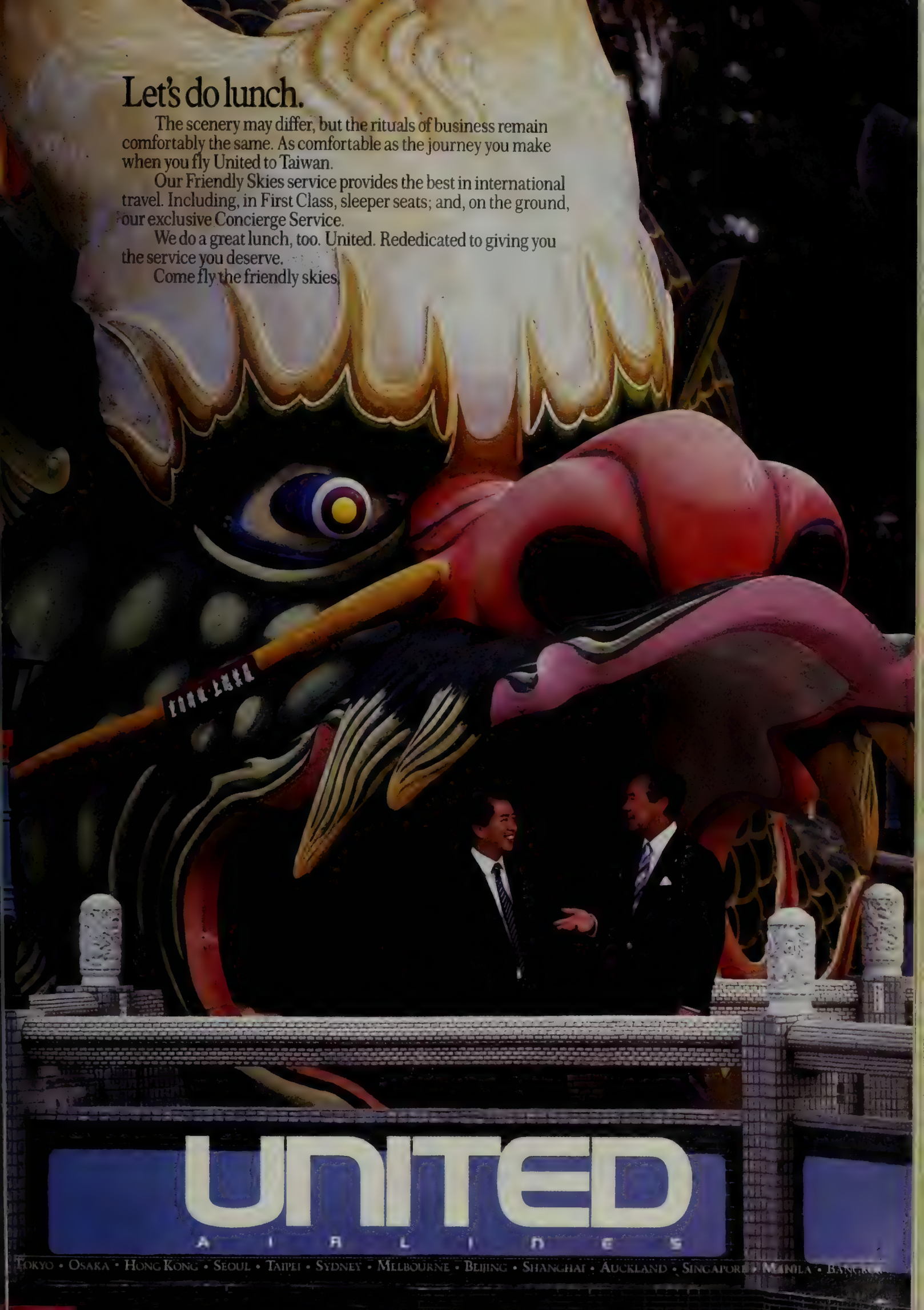
Japan and its neighbors do run their economies on the mercantilist model, with government enacting policies to help local industries export more than they import.

But Japan, Taiwan, Hong Kong, South Korea and Singapore have developed well beyond the economic justification for mercantilist crutches. By refusing to open their markets and refusing to allow true competition at home, these governments betray a reluctance—a fear even—of changing policies that perhaps were once useful but now could become self-defeating. To a great degree this intransigence is causing the world's trade strife.

The U.S. and Europe have retaliated by pulling out their own neomercantilist weapons. In Europe hundreds of new regulations are being passed by the European Economic Commission. On the surface, these rules are aimed at unifying Europe into one market. In fact, the rules will limit the ability of Americans and Asians to sell goods there.

The price of a misfire—sparking an all-out trade war—is so high that all the parties have so far stopped short of total retaliation. In January the Europeans banned U.S. hormone-treated beef and the U.S. retaliated against European farm products. But the Europeans were reluctant to fire their next shot in the trade battle—a 100% tariff on the $96.6 million of dried fruit and walnuts that the U.S. exports to Europe each year.

Nonetheless, Europeans are unlikely to repeal the dozens of more subtle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regulations that effectively block various American and Japanese imports.

Thus, in sheer self-defense, America is turning mercantilist, too, mainly through the Omnibus Trade & Competitiveness Act of 1988. This law forces the Office of the U.S. Trade Representative to take action to open foreign markets to American goods, using retaliatory tools that include tariffs and bans against offending countries. Last year the Trade Representative threatened to take protectionist actions against Taiwan, South Korea, Thailand and Brazil. Brazil didn't move fast enough at the bargaining table, so Washington slapped a $39 million tariff on imports of Brazilian pharmaceuticals.

Now the U.S. Trade Representative is reportedly beginning talks with South Korea and Western Europe to get them to remove their protectionist barriers to the sale of U.S. telecommunications equipment. If there is no progress, tariffs and countertariffs are likely.

"What we have here is a slipshod industrial policy emerging from a bunch of random protectionist actions," says David Hale, chief economist with Kemper Financial Services in Chicago. "If we are going to be protectionist, we ought to admit it and do it in some coherent fashion."

As with much economic policy decided by Congress, this one could turn into a pork barrel. Much of the protectionist weaponry contained in the 1988 Trade Act and other U.S. legislation is the product of Congress' parochial interests. Largely because of Senator Jesse Helms of North Carolina, for instance, Washington continues to give special protection to textiles. Likewise, the strong telecommunications lobby pushed special legislative provisions that ensure its industry will be a top priority for the Trade Representative.

"What we have here is a slipshod industrial policy emerging from a bunch of random protectionist actions," says David Hale, chief economist with Kemper Financial Services in Chicago. "If we are going to be protectionist, we ought to admit it and do it in some coherent fashion." But coherence may be too much to expect from a policy formulated by a Congress heavily under the influence of special interests. ■

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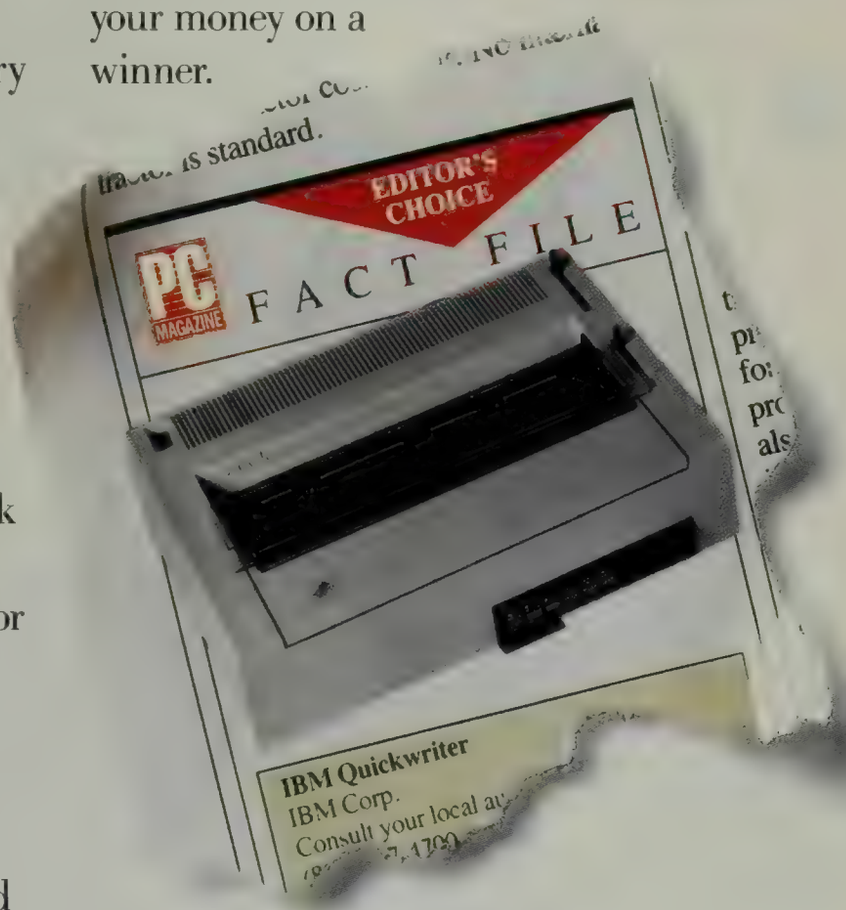

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IBM®

From the wreckage of the real estate partnership business, Boston-based Krupp has emerged a winner with its Cash Plus units. Its customers should be so lucky.

Please read fine print

By Matthew Schifrin

WHILE OTHER STOCKBROKERS were selling their condos to buy groceries in the post-Oct. 19 era, Bill Howard was moving up from a condo to a house with a pool. "These past two years have been great," says Howard, 41, who has earned on average nearly $300,000 over the last two years as a salesman at J.B. Hanauer & Co.

His secret? Selling the latest investment gimmick. Howard and some 7,000 other brokers at 90 retail houses around the country are peddling real estate limited partnerships put together by a Boston syndicator, Krupp. Last year Krupp raised $540 million in such offerings, up from less than one-tenth that amount in 1984; they now account for 10% of the entire real estate limited partnership market.

One reason the business is so lucrative is that Krupp pays high sales commissions to brokerage houses and their staff—as much as 8%, compared with 5% or less for more conventional brokerage products like stocks.

Krupp was founded in 1969 by two Boston-born brothers, George, now 44, and Douglas, 42. Throughout the 1970s Krupp remained a pipsqueak outfit offering low-leverage, private partnerships in apartment buildings.

Came tax reform, and high-leverage tax-shelter deals stopped selling. Investors wanted income, not tax offsets. Krupp stepped in as a packager of out-and-out "no leverage" deals. So far Krupp has raised $1.7 billion, making the brothers rich at a time when competitors who had been offering tax-advantaged deals are starving.

The Krupps have sold 18 public and 29 private partnerships that control 25,000 residential housing units and 5 million square feet of commercial office space. The investments are in places like Columbus, Ohio and Greenville, S.C.

But what has been a great deal for the Krupps and their salespeople looks like not so good a deal for the customers. Like most real estate partnerships, its deals are choked with front-end costs. As much as 15% of every investment dollar goes for brokers' commissions, fees for the general partners and others.

What do investors get in return? Krupp's hottest-selling product is a hybrid called Cash Plus, sold in units of $5,000, $2,000 for IRAs. Currently these investments are returning around 8%. What's Cash Plus? Seventy percent of each unit represents equity in a shopping mall or apartment complex. The real estate is quite conservative: unleveraged, high-occupancy properties. But conservative also

Seth Resnick

[illegible] and George Krupp

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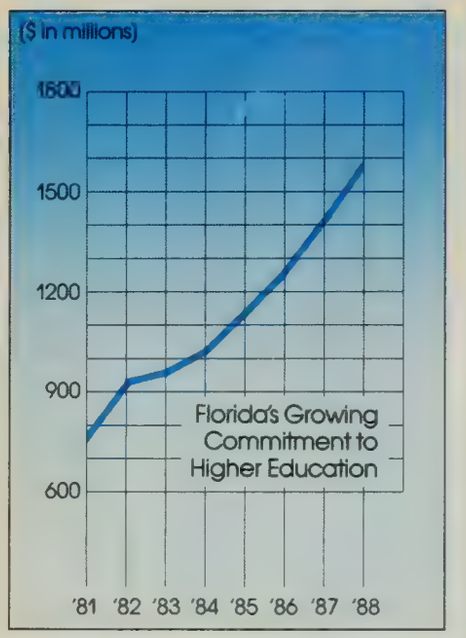

Funds for higher education in Florida have more than doubled since 1980, resulting in a top 10 ranking among the nation's state university systems.*

Florida's nine universities now support six engineering colleges, two law schools, nine programs leading to master's degrees in business and management, and four more leading to doctorates in computer and information sciences.

But well-educated employees are just one of the reasons businesses are attracted to Florida. For the complete story, contact the Florida Department of Commerce, Division of Economic Development, 501 Collins Building, Suite FB, Tallahassee, Florida 32399-2000; (904) 488-5507.

*Based on a national survey among university presidents.

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means lower returns, especially when a good piece of the invested money gets siphoned off by the salespeople and general partners.

What happens to the other 30%? It gets invested in high-yielding GNMAs—say, 10% to 10.5% coupons. The GNMAs do two things for Cash Plus: enhance the overall yield and enable the salespeople to state that part of the package is government-insured.

What the salespeople might not tell you is this: Like any purchase of a GNMA, part of the return is return of capital, not interest on investment, as these high-yield mortgages underlying the GNMAs get paid off.

The flaws, then, are clear: 1) Part of the yield is actually a return of capital, and 2) the investor is paying up to 15% commission on an investment 30% of which consists of GNMAs that could be bought through a broker for 2½% or less.

A confusing explanation of fees in the offering prospectus may lead Cash Plus investors to think that over the long haul they may do much better than the current 8% return. The prospectus promises that the Cash Plus partnerships will return at least 12% annually over the life of the investment before the Krupps share in the profit. Any shortfall is to be paid at maturity—normally five to eight years. A closer read shows that some of this return is simply getting your own money back. (The prospectus, significantly, does not guarantee that the investor's original investment will be intact at the end of the five to eight years.)

What about eventual appreciation in the underlying real estate? There could be some. But remember: This is not speculative real estate where returns could be high, nor is it leveraged. Any appreciation would probably be modest and might not be forthcoming at all.

If the real estate does appreciate, Krupp as managing partner gets 10% of any capital gain when the property is sold. Furthermore, the Krupps take 1% of any cash distributions from the properties along the way and a 0.5% annual management fee.

Needless to say, Cash Plus, like many real estate partnerships, doesn't have any significant secondary market and is thus relatively illiquid.

A conservative investment? Yes. A good investment? Probably not. ■

Jim Cotter shuns publicity but never backs away from a fight. A comer among the corporate raiders, his motto might be . . .

What's wrong with a little greenmail?

By Ralph King Jr.

JUST BEFORE CHRISTMAS, seven years ago, James Cotter had a small problem. He had paid $10.50 a share for a 38% stake in a Houston real estate company called Affiliated Capital. Texas was booming back then, and Cotter figured Affiliated was worth at least $30 a share broken up. Affiliated's president, Billy Goldberg, was having none of that. He owned over 50% of the company and offered Cotter less than $20 a share to go away. When Cotter refused, Goldberg somewhat gleefully explained that since the number of shareholders had fallen below 300, he was going to pull his company off the stock exchange, as the law allowed, and file no more financials.

At this point, many raiders would have admitted defeat and slunk away. Not Jim Cotter. He handed out five shares of Affiliated Capital, as "Christmas bonuses," to each of 100 or so fellow employees. A lawsuit followed; the outraged president subpoenaed Cotter on Christmas day.

In the end Billy Goldberg paid Cot-

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ter $25 a share to ride off into the sunset.

Such is the cost of crossing the tough son of a New York City police detective. Such is the thumb-in-the-eye fighting style of this man that smart investors like Ronald Brierly, the Sydney-based financier (FORBES, *Feb. 23, 1987*), and Coniston Partners, the New York raiders, have followed Cotter into several deals.

Even without outside money, Cotter swings considerable investment power. He is the financial strategist for a little-known real estate and movie theater fortune, conservatively estimated by FORBES at $500 million, controlled by ultraprivate Michael Forman *(see box, p.72)*. Cotter is to Forman what Richard Rainwater was to the Bass brothers. In return for managing the Forman fortune, Cotter gets, in effect, 20% of the profits. Most of the investments are handled through Hecco Ventures, a partnership between the two men.

"He [Cotter] has become wealthy, but he's made the Formans tremendously so," says Paul Koether, a New Jersey stockbroker and an investing partner on and off with Cotter for years. After his 20 years with the Formans, Cotter's net worth is pushing an estimated $50 million, while the Forman family's holdings have ballooned from roughly $50 million to more than $500 million.

Cotter's deals frequently lack finesse, but they rarely lack profits. He will take control of a company if he must, but his eye remains firmly on the end objective: making money. By today's standards, Cotter's targets are on the small side. Recently, for example, he outmaneuvered a string of investors to gain control of Reading Co. (assets, $54 million), which owns some prime downtown Philadelphia real estate and carries $180 million in tax losses on its books. He played white knight in a battle for Stater Bros., a well-run $1.1 billion supermarket chain in southern California, and walked away with a 54% interest in the food retailer. He bought his way onto the boards of two Los Angeles-area S&Ls, Citadel Holding Corp. and Valley Federal Savings & Loan, and is expected to merge them eventually to form a healthy, $7 billion (assets) institution. Affiliated Capital is one of dozens of public companies that have coughed up greenmail to get rid of Cotter.

"He takes advantage of situations," grumbles Bernard Briskin, president of supermarket operator Arden Group, which in 1986 paid a 25% premium so Cotter would drop a challenge to a voting-rights plan clearly favorable to Briskin himself. Says Alfred Villasenor Jr., a longtime associate and Citadel Holding board member: "Jim's a street fighter."

Currently Cotter is mostly out fighting for real estate assets. When he finds what looks like a bargain, he moves fast, often buying 5% or so of the target's stock. That is usually followed by various proposals for squeezing cash from the assets Cotter has scouted. If management won't listen, Cotter buys more. And if that doesn't win him a willing ear, a board seat or an offer to buy back his shares at what he thinks they're worth, Cotter gets nastier. He files lawsuits, starts proxy fights, launches tender offers. Part of Cotter's success in playing this game has been avoiding publicity. Target companies are frequently unaware of his tactics or his reputation.

Cotter declined repeated requests for interviews, but we pieced together a clear picture of his activities from interviews and public documents.

Cotter caught the attention of drive-in-theater mogul William Forman in 1969. A Georgetown University law school graduate, Cotter was then working in Los Angeles as a trial lawyer for the Internal Revenue Service. Forman learned from a friend at a Big Eight accounting firm that Cotter was quick on his feet and an outstanding litigator. He hired him and soon had Cotter working as his chief financial officer, diversifying his wealth outside the movie theater business. After Forman's death, Cotter continued the work for Forman's son, Michael.

Cotter, separated with three children, now divides his working time between a swank apartment in West Hollywood and an oceanside Laguna Beach condo, a far cry from the tenement where he grew up in the Bronx. His passions, besides business, are growing oranges and playing handball at the Los Angeles Athletic Club, where he is top ranked. On weekends, friends say, he likes to take long strolls among his 1,000 acres of orange groves in the San Joaquin Valley.

Jeff Goldwater Los Angeles Daily News

Craig Corp. Chairman James Cotter
One of the Forman family's most precious assets.

The outside investor who is taken with Cotter's style can get a ride through Craig Corp., a New York Stock Exchange company of which he is chairman and the largest shareholder. Craig was a marketer of consumer electronics such as car stereos, citizens band radios and calculators, before Asian manufacturers stormed the scene. The company had little but $6 million in cash and some modest tax losses by the time Cotter learned that a 36% block was for sale in early 1985. He snapped it up for about $9.50 per share.

Craig currently sells at $23—about nine times projected 1989 earnings, up from $14 a year ago—but it could well be worth twice that. The main reason is its Stater Bros. holding. The 100-store grocery chain is the market leader of the "Inland Empire," the exploding sprawl due east of Los Angeles that includes Riverside and San Bernardino counties.

In an industry that crawls, Stater's comparable store sales are jumping at least 8% annually. Operating margins have improved dramatically, from 2.3% in 1986 to an estimated 3.5% last year, in an industry that averages 2.7%. Why? Partly because senior managers and employees own the half of Stater that Craig doesn't.

Given Craig Corp.'s roughly 2 million shares outstanding (Cotter and friends hold well over 50%), the

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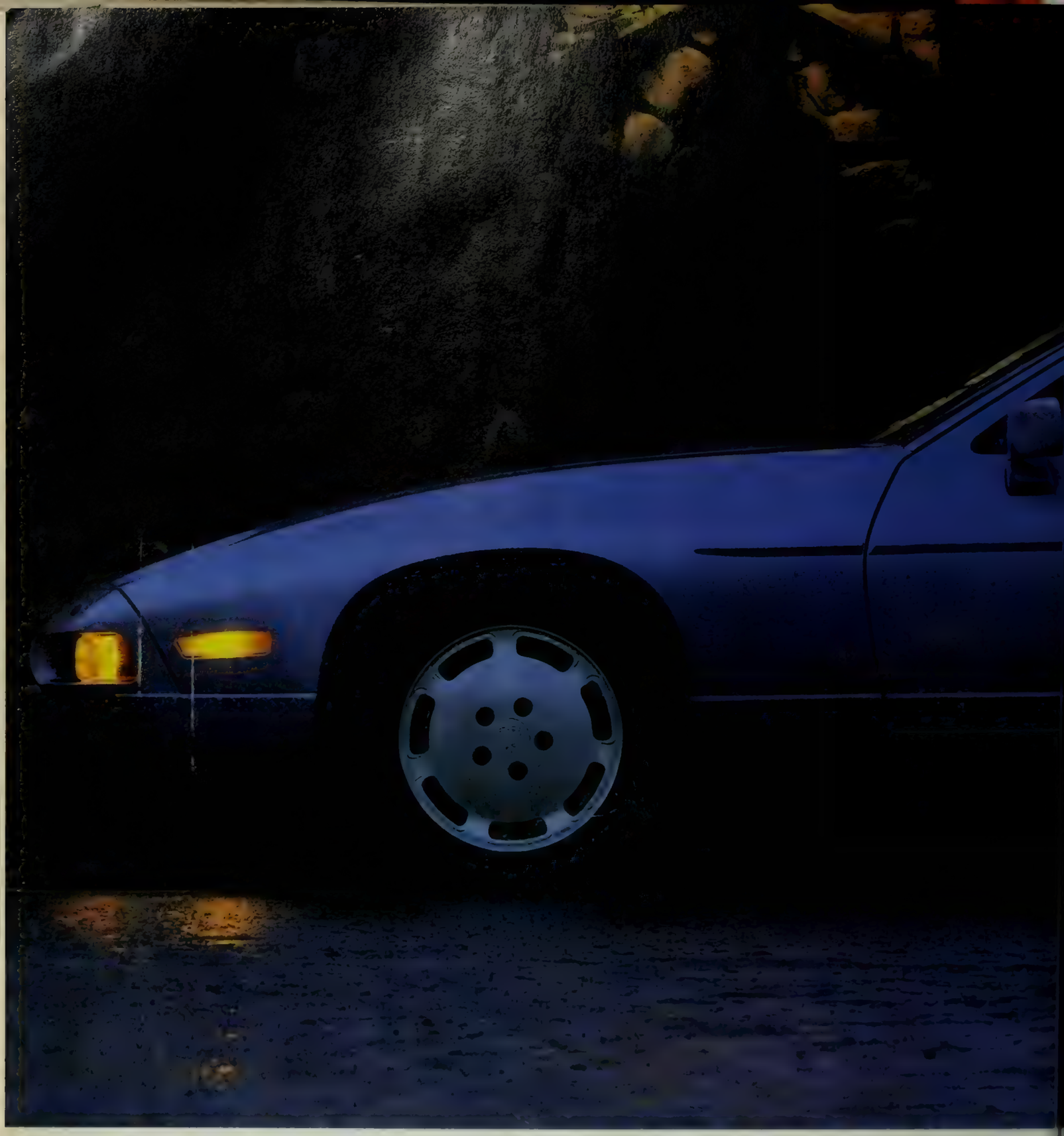

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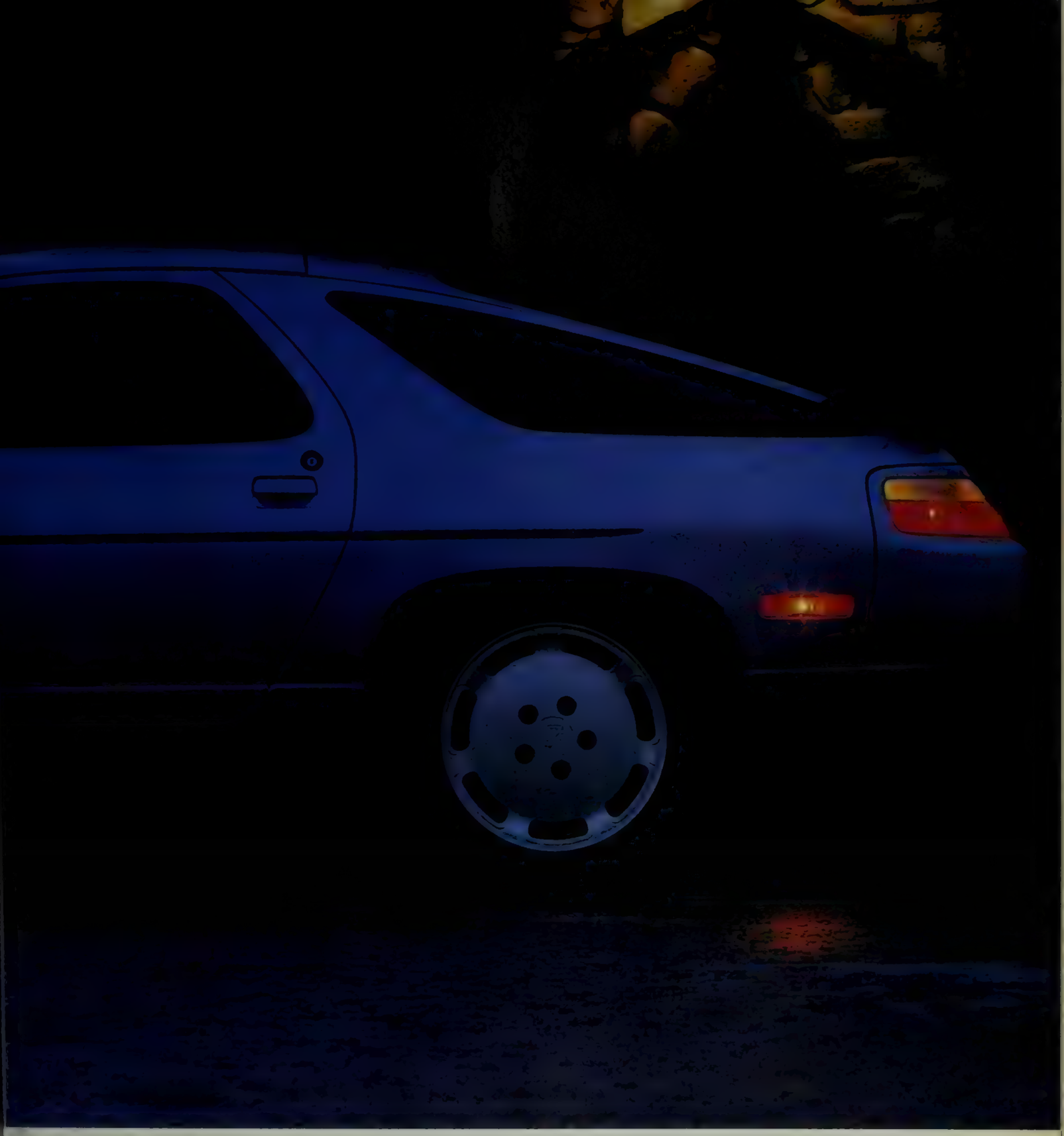

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"Forman's folly"

Michael Robert Forman is something of an eccentric in an industry that thrives on publicity. He is chairman of Pacific Theatres Corp., one of the nation's largest movie theater and drive-in chains, and an heir to a $500 million fortune.

Like his financial manager, James Cotter, Forman, 53, does not speak to the press and seeks to keep out of the public eye. A Bel Air resident, Forman is waging a court battle with his first wife over his fortune, which, until now, has even escaped the attention of The FORBES Four Hundred.

Forman's father, William, was also famous for keeping his mouth shut. Starting in the mid-1940s, right under the noses of big Los Angeles theater chains, Bill Forman quietly built a drive-in empire from scratch. His strategy: Buy up vacant parcels close to soon-to-be-built freeway exits. "Forman's folly," many called it, as he erected giant outdoor screens in the boondocks and labored to transform the image of drive-ins from "passion pits" to family entertainment.

"Come as you are in the family car," he advertised. Forman at one point even hired attendants wearing white smocks and caps to clean every patron's windshield. And the man knew his market: Southern California development boomed, and denizens of its newly minted suburbs flocked to his outdoor movies.

In time, Bill Forman also built, bought or leased walk-in theaters around the country and the world (today, the chain has 350 screens, mostly in California and Hawaii, including 32 drive-ins). For fun, he dabbled as a producer, backing such epics as *2001: A Space Odyssey* and *Battle of the Bulge*.

Wayne Shimabukuro/Gamma Liaison

A Pacific drive-in in Orange County
Worth up to $1 million an acre.

Mike, his only son, came straight to work for Pacific Theatres in 1957 after getting his bachelor's degreé in economics from Stanford. Afflicted with a lifelong disease that left his face disfigured, the younger Forman seemed more interested in philanthropy than expanding the family fortune. He poured his talents and his money into philanthropy, including the Cedars-Sinai Medical Center and the Music Center of Los Angeles County.

Meanwhile he has Jim Cotter to run his money, and a cousin, Jerome Forman, to run the theaters. Some of the land that Bill Forman snapped up for several thousand dollars an acre 30 years ago or more is being gradually sold to commercial and residential developers for up to $1 million an acre today. And then there is that precious asset, Jim Cotter.—R.K.

company's Stater holding alone, net of debt, is worth an estimated $40 on a per share basis. Add shares in Citadel Holding that are currently worth $12 million and miscellaneous other assets, and Craig is a $50 stock.

Yes, there is risk. Craig is essentially run as a private investment firm, and its stock has a thin float, creating considerable price volatility. In a recent ten-day period, the stock rose from $19.50 to over $26, then fell to $23 days later. Also, Craig's financial reporting is, to be charitable, complex. Craig seems to change the way it accounts for its Stater holding, for example, at the drop of a pencil. The result? Assessing Craig's year-to-year performance is time-consuming, to say the least. Cotter's single gaffe to date seems to be a Hecco investment in Del Webb Corp., the troubled Phoenix-based real estate developer. As he awaits Nevada Gaming Commission approval to add to his 8% stake, he has—on paper—lost 35% on a $16.5 million investment.

Yes, the corporate scene is a rough place these days, but that means it's ready-made for a street fighter like Jim Cotter. ■

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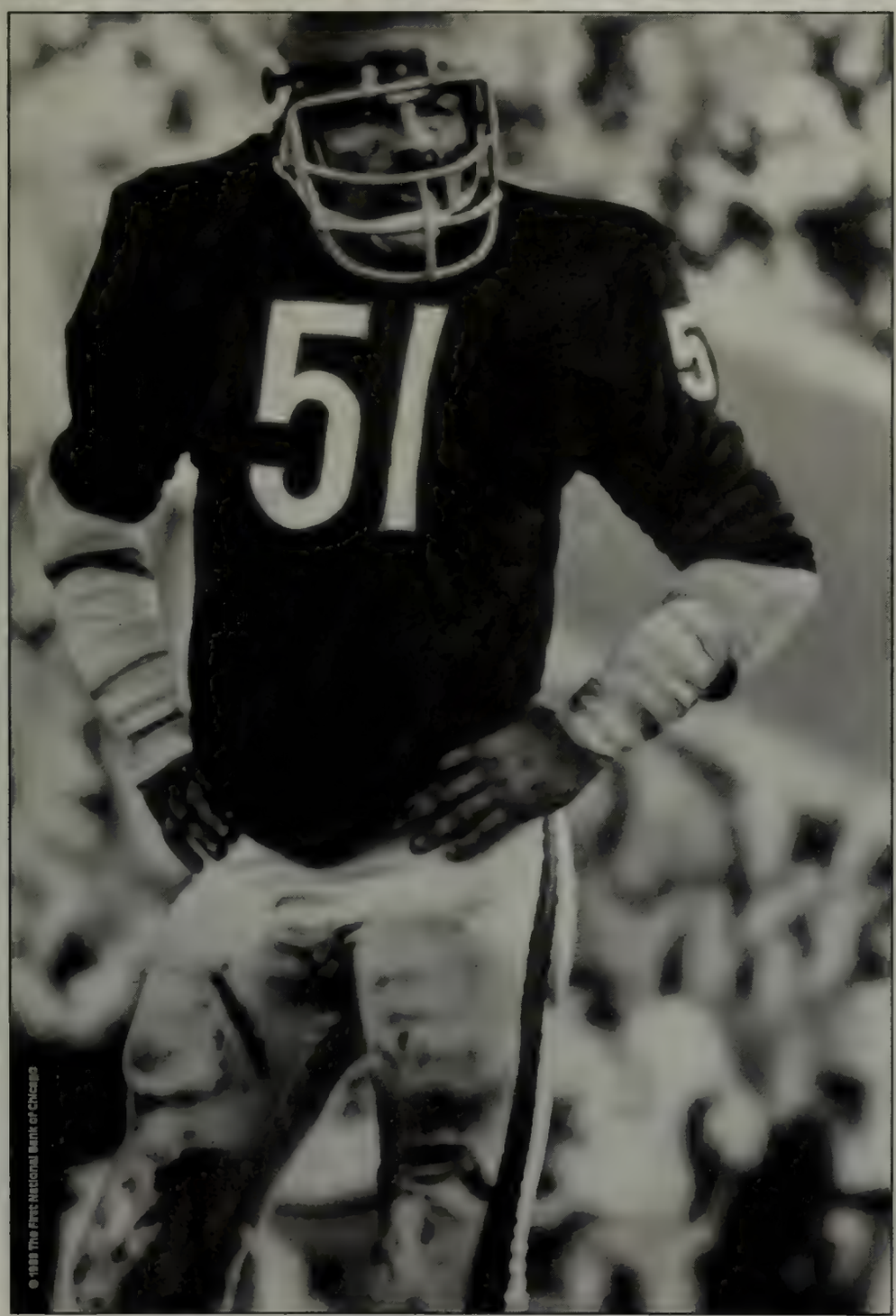

Dick Butkus, Chicago Bear Hall of Famer

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FIRST CHICAGO

On the Docket

No one disputes that a town can regulate access to its beaches. But what about the waters lapping the shore?

Lawsuits, ahoy!

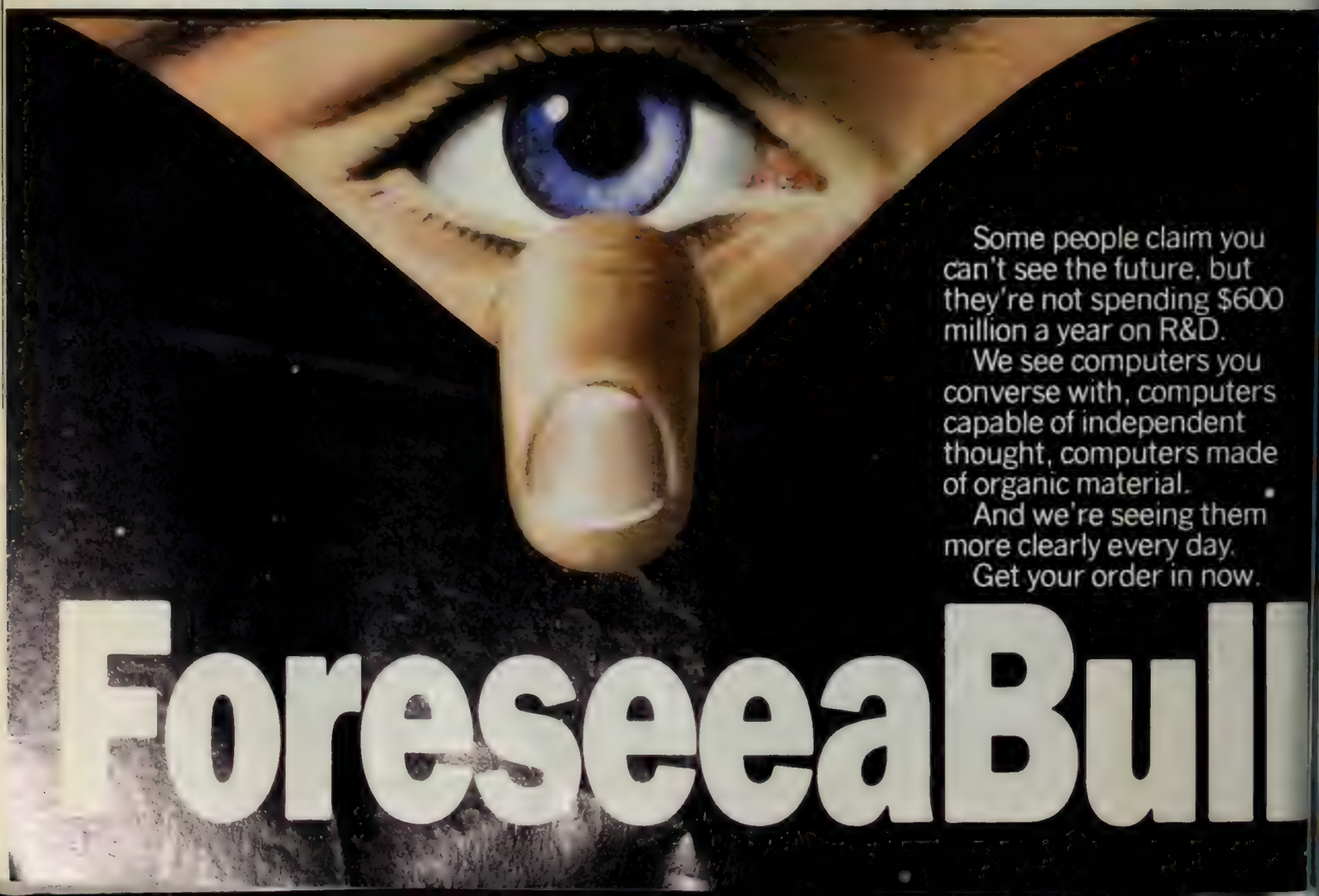
By Deirdre Fanning

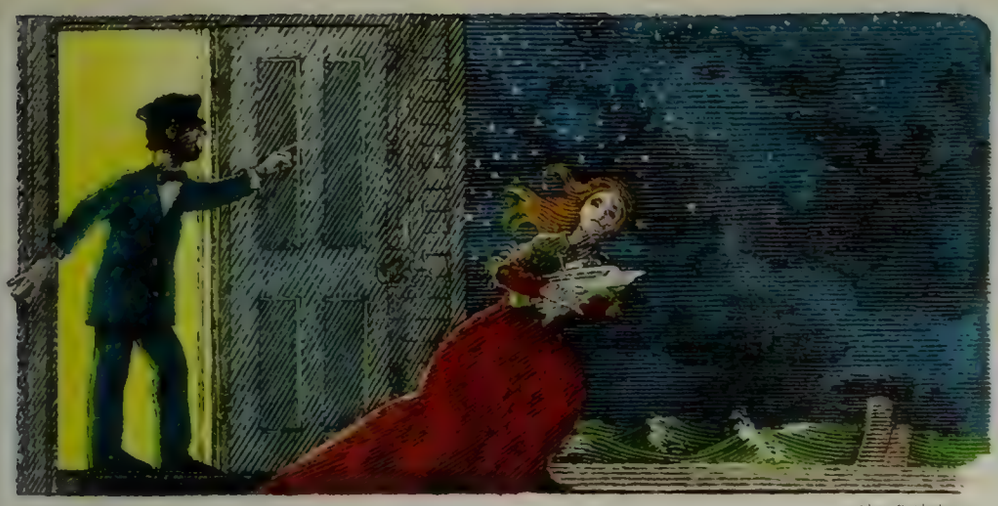
AH, LARCHMONT YACHT CLUB, paradigm of buffed mahogany walls and overstuffed leather armchairs. But the hush was broken by the irate voices of some 50 area yachtsmen gathered there one recent evening, furious over a new mooring regulation enacted by the village of Lloyd Harbor, N.Y., nearby on Long Island Sound. The regulation requires nonresident sailors of Lloyd Harbor to pay the town a $100 fee to drop anchor in local waters for the night. The charge for residents: only $15.

The yachtsmen's unhappiness is understandable, for such laws are now becoming common in coastal communities around the country. They're being inspired by overcrowding and pollution brought on by the increased popularity of recreational boating (FORBES, *Nov. 2, 1987*). But instead of enacting laws that treat everyone fairly, many towns and villages are adopting restrictions that give favorable treatment to their own residents.

Federal and state laws govern the use of coastal waterways, but over the years the task of actually maintaining facilities and anchorages has more and more fallen to municipalities. These, in turn, have begun to assert a questionable legal domain over the areas involved. Some states allow their towns to claim ownership up to the mean high-water mark, or even further up the beach. Still other towns, particularly in the Northeast, claim ownership to entire harbors and bays on the basis of pre-Revolutionary land grants.

What results from all this is mean-spirited conflict regarding where private shorefront property actually becomes public waterways and thus available to navigation by anyone. Take the case of a retired Lake Park, Fla. engineer named Philip Hodes. After docking charges were boosted at his local marina at Riviera Beach, Hodes decided to establish an anchor-





Chas B Slackman

age 50 or so feet offshore, rowing back and forth to his boat by dinghy. But Riviera Beach had an ordinance on its books saying that no one could anchor in area waters for more than 96 hours at a time, on pain of a $500 fine.

Outraged, Hodes last year challenged the ordinance in municipal court on the grounds that the water did not belong to Riviera Beach and the ordinance had thus violated his and others' rights to use public waterways. In response, Riviera Beach rewrote the ordinance to give folks like Hodes a full seven days at a time to swing at anchor. Hodes plans to challenge the ordinance all over again, and on the same constitutional grounds.

Behind such fights are the environmental and pollution concerns of coastal towns and villages. Says George Toumanoff, village trustee of Lloyd Harbor, N.Y., "The harbor is a very fragile area. Annual use permits are a practical way to maintain control over the total number of boats and where they come from."

But such ordinances must not conflict with the Constitution by unfairly discriminating against one class of the public (nonresidents) in favor of another (locals). "The Constitution stands first—everything else must comply with that," says Chicago attorney Herbert Rothbart. "And under the due process statute everyone has to be treated equally." Thus towns like Lloyd Harbor or Shelter Island, N.Y., which gives preferential treatment to its residents in the mooring of their boats in the general harbor, appear to be denying the public equal rights.

So far, courts are split over the issue. In a somewhat analogous case involving use of public property, a New York State appeals court last June found that the city of Albany had unlawfully discriminated against nonresidents when it passed an ordinance allowing certain city residents unlimited parking rights while restricting nonresidents to 90 minutes. Yet in a similar Illinois case, an appeals court upheld a discriminatory ordinance on the grounds that, among other things, the prejudicial distinction between local residents and outsiders was not "invidious."

Obviously, what's needed is a U.S. Supreme Court test case. But the Court takes such cases only when they involve matters of major significance, and a suit involving mooring rights of weekend sailors hardly seems to fit the bill. Or does it? What's really at issue here is whether the fundamental right to equal treatment extends not just to voting and other political matters but to the use of public waterways as well. ■

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The Larger Context

Raising up the poor of the world is a moral imperative. In this sense, capitalism is morally superior to socialism.

HOW ABOUT OBSCENE LOSSES?

By Michael Novak

After my first column in these pages *(Feb. 6)*, I received a helpful letter from R.E. Rieck of Silver Spring, Md., who makes the sound point that some profits are "obscene" and that multinationals sometimes act in a "wicked" manner. He calls obscene those profits that are derived from dumping toxic wastes in such a way that the costs of cleanup are shifted to taxpayers. He calls wicked a firm's conscious decision to tolerate 2 or 3 deaths per 10,000 products, since monetary court settlements are cheaper than the correction of a product defect.

"Of course," Rieck adds, "the system we know as capitalism is the best, but only if it is practiced conscientiously for the good of all, not simply for the profit of a few."

I agree with Rieck on these points, but in return I have a question for him. Where did he get the idea that capitalism is the best system yet discovered, but "only if it is practiced conscientiously for the good of all"?

This idea is not widely shared on the European continent, where capitalism is usually understood in a far more naked ideological sense derived from Marx and from anticlerical 19th-century "liberals." Capitalism is taken to be purely instrumental, materialistic and egocentric. It is antireligious and anti-Christian. It does not fit within a larger (political and moral) context; capitalism is the larger context—secularist and materialist to the core—that swallows everything else.

Rieck's way of understanding capitalism is different from the European view and is quite American. Among us, capitalism operates neither outside the law nor outside morality; it operates within a larger context. Here the economic system called capitalism is paired with a political system (republican self-government) and a moral/cultural system (largely Jewish, Christian and humanistic), both of which properly check and guide it. Here capitalism is part of a three-sided

system: political, economic and moral. That is why it is proper to speak not of capitalism but of "democratic capitalism," i.e., an integral political economy dependent upon basic human virtues.

In that larger context, it is quite sound to condemn moral abuses, much as Rieck and many others rightly do, people who cherish the capitalist system in the light of conscience but who criticize its occasional betrayals thereof.

But there are others who, following Marx, think all profits are obscene and all multinationals immoral—because they think the foundations of capitalism morally deficient, even inherently evil. This European understanding of capitalism is still powerful in the Christian churches. On this point, even the U.S. Catholic bishops in their highly publicized pastoral letter on the economy (1986) found the profit motive a "vexing" moral problem. The shortest reply to this is: If a system based on profit is morally vexing or, as others say, obscene, is a system based on steady losses chaste and morally to be preferred?

Again, when recent popes proclaim development to be a moral imperative, they are saying in another way that the creation of new wealth (another name for which is profit) is now both systematically attainable and, given the sufferings caused by abject poverty, morally obligatory.

In other words, before Adam Smith (i.e., before the nature and causes of the wealth of nations came to be widely known), virtually universal human poverty was simply a fact about which little could be done. But after Adam Smith—and in particular, after the demonstrated capacity of the infant U.S. to raise its poor immigrants out of poverty within a very short time—a new moral imperative descended upon the human race: If the poor can be systematically raised out of poverty, then they must be. Economic development has now become a universal moral imperative.

As Hannah Arendt wrote in *On Revolution*, by raising up millions of its poor the U.S. confronted Europeans with what they called "the social problem." If huge masses of the poor are not forever doomed to poverty, as Europeans had previously believed, then Europe had to change its ways—quickly, systematically—to raise up *les misérables*.

In brief, the capitalist system was the first in history to take as its fundamental moral imperative the placing of a sound material base under every poor person on the planet. It offered the world its first vision of planetary economic development—the wealth of nations, not merely of a few individuals. Its reasons for choosing as the motor of development an incentive system for individuals have been amply justified by later experiments, and not least by the persistent failures of pure socialist systems and traditionalist (precapitalist) ones.

Therefore, it is highly useful to establish first the intellectual grounds on which to assert, as Rieck does, that "capitalism is the best" system. Then, given these principles and this larger context, he (and we) will have solid grounds for condemning individuals or firms that betray that system's own ideals. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C., and is author of The Spirit of Democratic Capitalism *and* Free Persons and the Common Good.

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Bruce Kennedy has piloted Alaska Airlines from the bush leagues into the big leagues. But these days he's worried that he may have done his job too well.

"We're vulnerable"

By Marc Beauchamp

A DEVOUT PRESBYTERIAN, Alaska Air Group Chairman Bruce Kennedy takes his faith seriously. With his wife, Karleen, and other members of his church, he sponsors refugees from Southeast Asia. Passengers on the company flagship Alaska Airlines find snippets of Bible verse on their food trays. Summing up the past few years at Seattle-based Alaska Air, Kennedy says: "By the grace of God we're still in business."

The airline executive is just being modest. Kennedy, not Providence, deserves the credit for Alaska Air's results—if not its survival—in a consolidating industry. Eleven years ago Alaska Airlines served only 11 cities, all but one (Seattle) in Alaska. Today Alaska's blue, green and white jets with the distinctive Eskimo on the tail serve 30 cities in six Western states. Last fall Alaska began flying to the Mexican resorts of Mazatlan and Puerto Vallarta. Two years ago Kennedy bought Seattle-based Horizon Air, an upstart regional carrier that serves 30 cities in five Western states.

Kennedy, a boyish-looking 50-year-old, has done all this and, in his ten years piloting the carrier, consistently made money. Since 1979 revenues have grown eightfold, to $814 million last year, and profits, at $37 million, have gone up more than tenfold. In a notoriously cyclical business, Alaska Air has been profitable for 16 straight years. Alaska's five-year average return on equity (17.3%) leads the airline industry. All the more impressive, since this high return is achieved without much use of leverage: Alaska's $171 million in long-term debt makes up just 36% of capital.

Kennedy has done this with a tightly focused growth strategy, using profits from Alaska's lucrative intra-Alaska routes to expand southward into the Northwest and California. Today almost 70% of Alaska's paying traffic is south of Seattle. By flying north and south on the West Coast rather than east and west, Kennedy has thus far avoided the wrath of the major carriers like United and USAir. He has also largely avoided the withering battle for the most competitive routes in the California market, where three air-

Dan Lamont Martin

Alaska Air Group Chairman Bruce Kennedy
"I'd like to pass this company along intact."

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lines—Western, PSA and AirCal—long tried to make a living. All are gone, bought, respectively, by Delta, USAir and American.

Kennedy's marketing strategy stresses service. Alaska Airlines' TV spots poke fun at food served on other airlines. In a typical commercial, cramped coach passengers are dished up frozen doughnuts for breakfast and peanuts for lunch. Alaska's food is a cut above. Last year the company spent some $7 per passenger on food, according to the industry journal *Aviation Daily,* versus an industry average of less than $4. Flight attendants serve hot meals and pour complimentary wine, even on short hops. Alaska also offers more seat and leg room: Its MD-80s and Boeing 727s fly with 135 seats, versus the usual 147 to 160, and on busy flights are staffed with five flight attendants, not the usual four.

With this successful strategy and his niche markets, is Kennedy relaxed? No. He's worried about a possible takeover. He points to a recent First Boston report touting possibilities for leveraged buyouts in airlines. Noting the hundreds of millions of dollars parked in LBO funds, Kennedy says, "We're bite-size."

Alaska Airlines' TV spots poke fun at food on other airlines. In a typical ad, cramped coach passengers are dished up frozen doughnuts for breakfast and peanuts for lunch.

Insiders own less than 3% of Alaska's 15.7 million outstanding shares; and, despite the carrier's impressive record, Alaska Air Group's stock, recently 23, trades at 17% above book value and 9 times estimated 1989 earnings of $2.50 a share. Presumably to help protect Alaska against a potential raider, last fall Kennedy put Wall Street investment bankers Wasserstein, Perella & Co. on retainer—a "purely defensive" move, he insists.

What would be wrong with a leveraged buyout? Kennedy says Alaska needs its borrowing power to upgrade and expand its fleet. In the next four years he plans to spend $390 million on new planes.

Kennedy says he wants to leave Alaska within the next five years to do "something different"—he mentions overseas missionary work with his wife. "I'd like to pass this company along intact," he says. But Kennedy is a realist. "We're vulnerable," he admits. These days, what company isn't? ■

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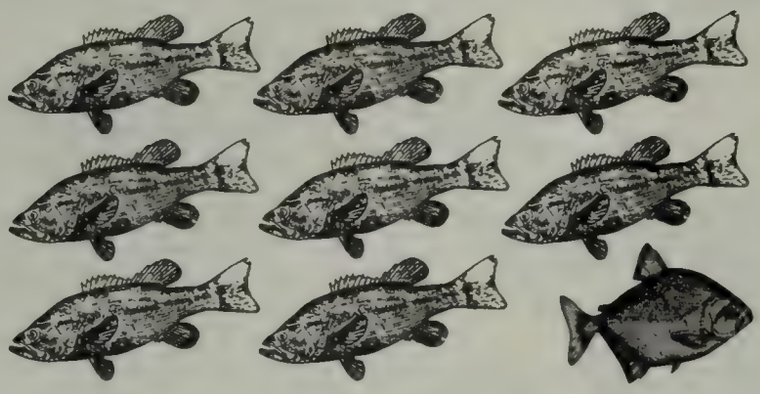

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Eight years ago Fred Silverman was fired as president of NBC, his reputation as a genius in tatters. Without much fanfare, he has made a tremendous comeback.

"I'm not rumpled anymore"

By Lisa Gubernick

FRED SILVERMAN was only 42 when he was booted out of NBC's top slot after three years of bottom-of-the-barrel ratings in 1981. A boy genius one day, a bum the next.

But Fred Silverman did not just go away. He went to Hollywood and labored at producing TV shows. By the end of this season Silverman should have five series on network prime-time, plus a clutch of *Perry Mason* specials. That's more than master-producer Stephen Cannell (FORBES, *Aug 22, 1988*) has, more than *Family Ties'* prolific Gary David Goldberg (he has three airing this season), more than any other independent producer in Hollywood. In a season notable for its failures, Silverman and his partner, Dean Hargrove, have had a string of successes. *Matlock, In the Heat of the Night* and *Father Dowling Mysteries* have consistently scored in the top third of the Nielsen ratings.

Silverman's revenge is not only sweet, it's lucrative. For each show he produces, Silverman gets a $35,000 to $50,000 executive producer's fee. For 1989, FORBES estimates, that should add up to over $3 million, not counting advances against foreign sales and rerun syndication. All Silverman will say is that it's "a lot more than I ever made at NBC"—where he was reported to have brought home $1 million a year.

Fred Silverman first made his name as vice president of programming at CBS (where he claims credit for *Mary Tyler Moore* and *Cannon*) and later led ABC to number one. So he was a two-time winner when NBC brought him in to perform miracles, which he could not produce. The two earlier successes were nearly forgotten in the highly publicized failure.

A *Time* cover story in 1977 called Silverman "the golden gut," in recognition both of his magic touch for popular tastes and his girth. He has

Bruce Asato

Fred Silverman on a shoot in Honolulu

"Names audiences are comfortable with and situations people are comfortable with."

since shrunk by some 55 pounds. "I stopped drinking," says Silverman, taking a drag off a Salem, which he describes as "the only vice I have left." Adds a svelter Silverman: "Everyone used to say I was rumpled. I'm not rumpled anymore." Indeed not. These days he shops at Carroll & Co., a preppy Beverly Hills haberdashery.

Fred Silverman Co., housed in small but elegant offices in west Los Angeles, has but six employees, counting Fred. Silverman has taken the risk-free approach to television production. "I don't want to spend my life agonizing over numbers," says Silverman. Unlike Stephen Cannell, who backs his own productions, Silverman's shows are funded with other people's money—belonging to, among others, Viacom International, MGM/UA Communications (the original deal expired in 1984) and Columbia Pictures Entertainment.

Silverman's comeback dates back to 1985 when he put Raymond Burr as *Perry Mason* back on the air in a two-hour special, which blew into first place the night it aired. *Perry Mason* is a fine example of Silverman's current formula. "He comes up with names audiences are comfortable with and puts them in a situation people are comfortable with," says David Gerber, who heads MGM/UA's Television Group. "It's a bit of a return to the loyalty that TV had ten years ago."

So Silverman cast Andy Griffith as a Georgia lawyer in *Matlock*, the popular courtroom drama. Tom Bosley (he played Dad in *Happy Days*, a hit during the Silverman era at ABC) plays a crime-solving Father Dowling; Carroll O'Connor (Silverman was mid-

Silverman is a virtuoso at getting his shows on. On each series he has pushed for particular time slots, pitting "Father Dowling" against CBS' "Beauty and the Beast" and two ABC half-hour comedies.

wife to *All in the Family* back at CBS) is the irascible sheriff on *In the Heat of the Night*.

Fred Silverman is a virtuoso at scheduling, at getting his shows on at the right hour in the evening. On each series he has pushed hard for particular time slots. *Matlock*'s courtroom drama is pitted against ABC's comedic fare (*Who's the Boss* and *Roseanne*). Likewise, sleuthing Father Dowling faces off against *Beauty and the Beast* on CBS and two half-hour sitcoms on ABC. "We offer the only show with older appeal," contends Silverman. "It offers a whole new audience at 8 p.m. Friday."

Silverman's counterprogramming seems to be working; *In the Heat of the Night* has grabbed the top rating and audience share in its time slot; *Father Dowling* and *Matlock* are strong seconds when they air.

What next? Silverman is slowly expanding beyond programming for network TV. Last month he launched a new venture with Frederick Pierce, the former president of ABC, to produce taped programming for syndication, cable and home video.

Because taped programming is so much less expensive than filmed (roughly $500,000 to $600,000, versus $1 million to $1.2 million for an hour-long show), Silverman and Pierce will not need outside money but will put up the $200,000 themselves to get started. Their first effort: an interactive cable show, *Late Date* ("a cross between *Saturday Night Live* and David Letterman with a little Larry King thrown in," says Silverman), aimed for the Lifetime channel.

"When I started out there were three networks and PBS, and that was it," reflects Silverman, now 50. "There are so many more opportunities now. I wish I were 20 years younger." Never mind, Fred. Armand Hammer is 90 and still going strong. ■

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Economist Murray Rothbard is to the libertarian right of Milton Friedman. Despite his radicalism his audience is growing.

"No water" economics

By Peter Brimelow

MURRAY N. ROTHBARD, 62, S.J. Hall Distinguished Professor of Economics at the University of Nevada, Las Vegas, emits a string of comically hyperbolic epithets and cackles demonically. He is the Happy Warrior of American economics. And he has a lot to fight about: As a leader of the "Austrian" school of economic thought, he has such faith in free markets that he regards Milton Friedman as a species of Keynesian.

Here's how Rothbard describes his position: A recent *New York Times* article noted an emerging division between "salt water" economists, affiliated with universities on both coasts and favoring government intervention, and "fresh water" economists, mostly on the Great Lakes and skeptical of government intervention. Rothbard's deep love of factional distinction was fired. He published a letter to the editor announcing the existence of a third school: "no water" economists from states like Nevada. The dries thought that the "fresh water" folk were "wimpy moderates" because they did not believe that *all* government intervention was "not only ineffectual, but also pernicious and counterproductive."

When Rothbard opposes all government intervention he means, well, all. He faults the British radical reformers of the 19th century—confusingly called "classical liberals" although their belief in market forces was diametrically opposed to the skepticism of modern American liberals—for leaving "the command posts" still in the government's hands. ("Walter Bagehot [the great Victorian editor of *The Economist* magazine and a leading liberal spokesman] was a statist sellout!") These command posts include the mail, the roads, the currency—and the army.

Wayne Shimabukuro

Economist Murray Rothbard
"A happy warrior" with plenty to fight about.

The *army*? Sensing an interviewer's incredulity, the valiant Rothbard veers into a defense of private armies. And, of course, it is true, for example, that the paralysis of New York's police has resulted in the widespread employment of security guards, a partial privatization of the government's supposed monopoly on force. But . . .

But it would be wrong to allow Rothbard's more exuberant enthusiasm to distract attention from the serious import of his work—although that is arguably what has happened throughout his academic career.

Rothbard's "Austrianism" dates back to his attending the informal New York seminars held by the Viennese economist Ludwig von Mises (1881-1973), a refugee from the Nazis who arrived in the U.S. in 1939. At that time, American universities were almost entirely dominated by Keynesians hostile to Mises' stress on free markets. Like his fellow "Austrian," Friedrich von Hayek, Mises was unable to find work with any economics department, ultimately teaching at New York University's business school as an adjunct professor whose salary was paid by business admirers. But recently, particularly since Hayek was awarded the Nobel Prize for Economics in 1974, Austrianism has been attracting increasing attention in a world grown weary of government intervention's failures.

Austrianism appears close to free-market economics of a familiar although still controversial cast, but its origins and its ultimate implications are significantly different.

Most academic economists, of whatever persuasion, think that economics is a science like physics or chemistry. Thus, the study of evidence is supposed to yield conclusions about causes, and all essential relationships can be expressed quantitatively. For example, most economists think the money supply works in the economy like heat on a test tube full of water: Increase it and you get specific, measurable and predictable effects. There might be debate about the degree. But it can all be resolved by more research.

The Austrians completely reject this view. They believe that economics is more like mathematics. It must be derived from axioms—in the case of economics, axioms about individual human activity and deductions therefrom, such as the fact that people respond to incentives. Thus Rothbard calls economics "the logical analysis of the implications of human action."

Austrians, however, also think economics is unlike mathematics in an important respect: Its key relationships are not constant enough to be expressed in numbers. Thus Austrians are particularly skeptical about the possibility of precise predictions from econometric models. Only general predictions, they say, can be made with any degree of confidence.

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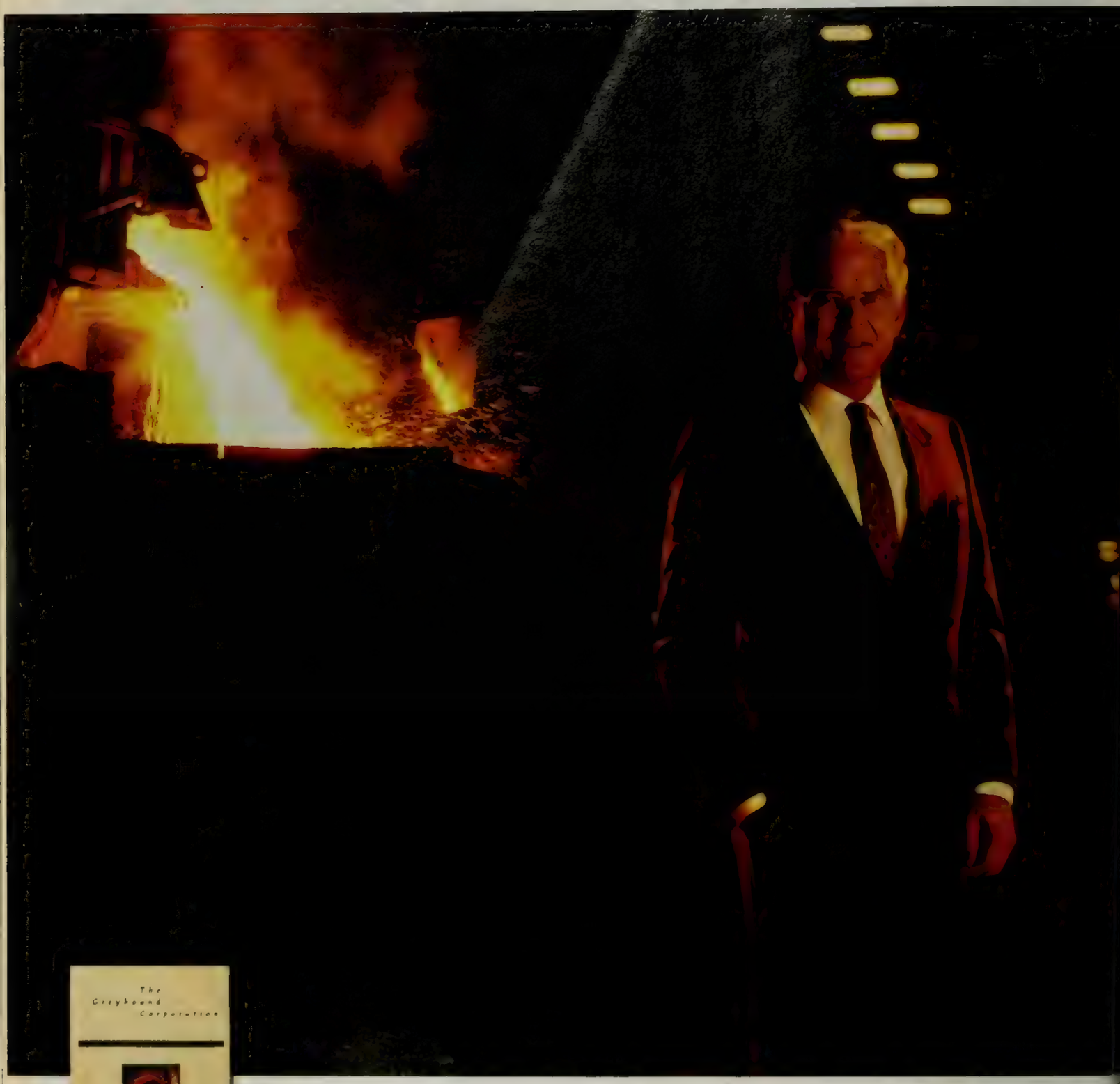

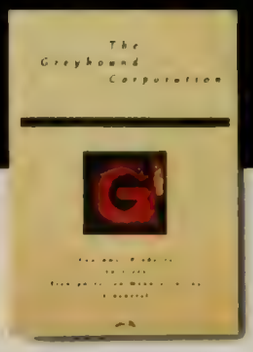

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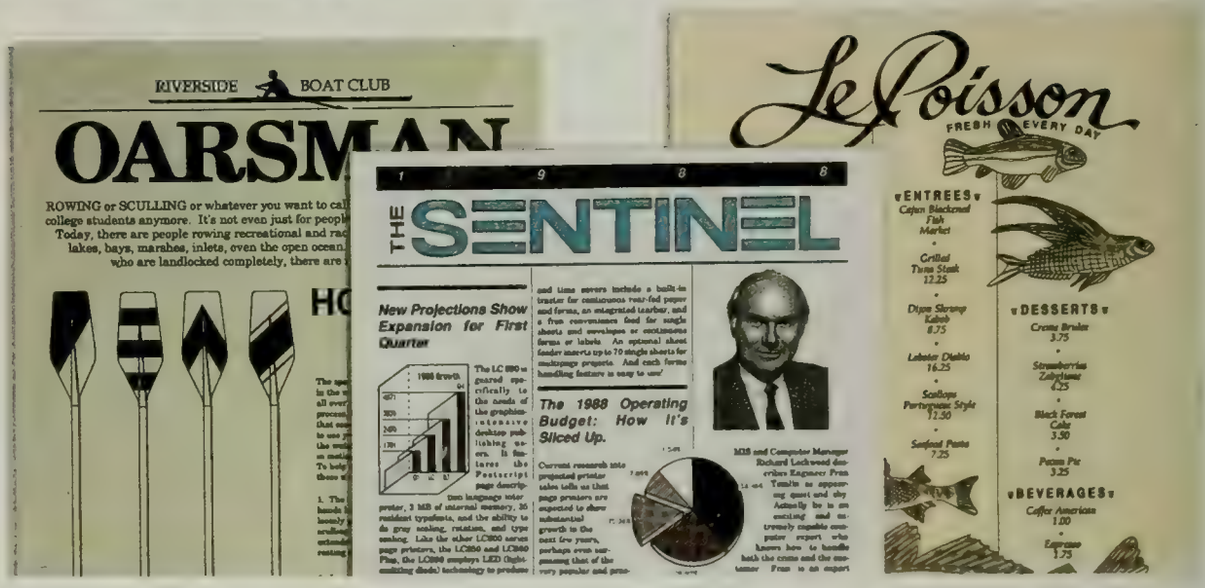

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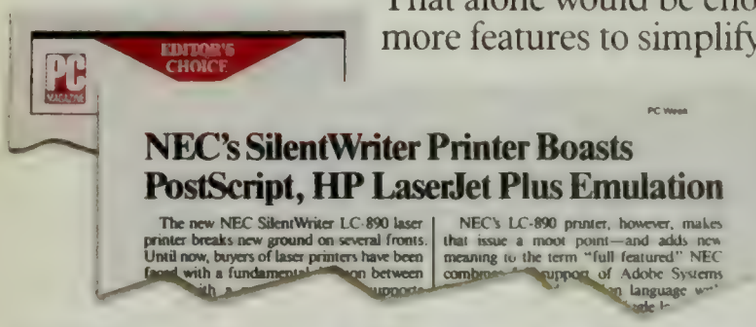

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sion in the 1920s that socialism could never work because no central authority could simulate by calculation the resource allocation decisions achieved under capitalism by the price mechanism. Mises argued the calculation was too complex. No amount of computational power could solve it.

Mises' adversaries elected to ignore him, but his analysis of socialism has arguably been borne out by the failure of the Communist bloc economies since his death. This analysis bodes ill for Gorbachev's tinkering reforms.

Rothbard has launched a number of similar sorties. For example, he has denounced the antitrust concept of monopoly prices, which he argues is a logical confusion except where the monopoly is supported by state intervention as when high tariffs protect a domestic producer from foreign imports. Rothbard thinks that antitrust laws are aimed at a chimera and should all be abolished.

Austrian skepticism about macroeconomic measurement has precipitated a bitter conflict, prosecuted by Rothbard with his usual glee, between the Austrians and their apparent free-market allies, the Milton Friedman-style monetarists. Both schools agree that money matters—that the central bank cannot indefinitely expand the quantity of money in circulation without inflation. But the Austrians argued that the monetarist prescription, expanding the money supply at a fixed rate equivalent to the underlying growth rate of the economy, can't work because it requires impossibly precise assumptions about the economy. Recent experience may validate this line of thinking: After 1982 the monetarists predicted renewed inflation because of Fed laxness. But this didn't happen. It didn't happen because of unexpected shifts in the velocity of money's circulation—people were just more willing to hold cash.

Austrians, in fact, believe they can show by deduction that money originally developed spontaneously, without government intervention. They think it would be better that way today. Some are interested in the idea of free banking, by which the money supply would be determined by the banks' judgment of the demand for loans (FORBES, *May 30, 1988*).

But Rothbard, typically contentious, has attacked this idea on the grounds that fractional reserve banking—the system by which banks lend out more than their reserves—is inherently fraudulent. He favors forcing the banks to maintain full reserves, plus a rigorous gold standard. This, he argues, would result in a gradual, beneficent deflation as technology improved productivity. He says this is what actually occurred in the 19th century, when increased use of machinery and better transportation led to sharply lower prices for manufactured goods and a vast increase in the general standard of living.

Rothbard was apparently born fighting. The son of Jewish immigrants from Eastern Europe, he remembers as a child silencing a gathering of his extended family ("all Stalinists and fellow travelers") by interrupting their deploring the Spanish Civil War with the innocent inquiry, "What's wrong with Franco anyway?" (Rothbard and Franco could hardly be further apart, but he says he couldn't see why the communists were any better.) He won a scholarship to a Manhattan private school where his classmates were "all wealthy liberals," and he thinks he was one of two Republicans at Columbia University in the 1940s, when he got his Ph.D. in economics.

All government intervention is "not merely ineffectual, but also pernicious and counterproductive." And that means all.

Rothbard's radicalism has unquestionably harmed his academic career. For years he worked for a variety of free-market foundations, one of which funded his magnum opus, *Man, Economy, and State.* But the fifth volume of his history of the American Revolution, *Conceived in Liberty,* has never been published, and he says only half jokingly that he finally found his longtime academic niche at Brooklyn Polytechnic because his opposition to the Vietnam War, basically on isolationist grounds, made him acceptable to the left-wing staff.

Some Rothbard-watchers note, however, that his entry into an organization, like that of some bacillus, is invariably followed by convulsions. Rothbard's once-close relationship with the Cato Institute, the Washington, D.C.-based libertarian think tank, has disintegrated despite their (relative) similarity of views. Could Rothbard's thermonuclear polemical style and his sharp tongue—he always refers to Cato and its associates as the "Kochtopus," a jibe at its chief backer, Wichita oilman and Forbes Four Hundreder Charles Koch—have something to do with it?

Rothbard himself professes puzzlement at this idea. "I see error and I attack it," he says humbly. But he doesn't like personal (as opposed to print) confrontations. To a casual observer he appears distinctly lovable—a word he himself regularly applies to an eccentric collection of controversialists in whom he takes an interest despite fundamental differences.

Rothbard in fact is interested in many things. He is fascinated by the relationship between religion and politics (it plays a major part in the history of economic thought he is currently writing). He effervesces with views on subjects as diverse as music (he once wrote an operetta satirizing the novelist Ayn Rand and her Objectivist movement, with which he had fallen out), 20th-century literature (bad) and Jewish women (worse). His 51-page bibliography includes hundreds of pieces of journalism.

This seems to be something of an Indian summer for Rothbard. He and his wife, longtime Manhattanites, have survived being transplanted to Nevada. His faction has helped wrest control of the tiny federal Libertarian party away from the "Kochtopus." He has found new allies in the Auburn University, Ala.-based Ludwig von Mises Institute, an independent foundation headed by an energetic direct-mail expert, Llewellyn H. Rockwell Jr., which funds scholarships, academic conferences and the *Review of Austrian Economics,* with Rothbard as editor. The Institute has just published a collection of essays originally presented in honor of Rothbard's 60th birthday, *Man, Economy and Liberty.*

Unthinkable thought: Is Rothbard mellowing? The Austrian theory of the business cycle, as elaborated by Rothbard in his books, particularly *America's Great Depression,* predicts that a Fed-stimulated inflationary boom must be followed by a cleansing collapse. But now, unlike many Austrians, Rothbard thinks the 1980 and 1981-82 recessions may have been enough to correct the distortions created by the previous inflationary decade. Inflation will eventually return, he says—Washington has "the power and the will" to prevent deflation—but the U.S. economy is simply not in the bad shape it was in 1980.

He isn't one of those who sees disaster lurking in persistent federal deficits. Any attempt to "cure" the federal deficit by raising taxes "would be like curing bronchitis by shooting the patient in the chest."

Which may be a general prediction. But it's pretty specific, coming from an Austrian school economist. ■

Increasingly, the U.S. not merely tolerates gambling but actively markets it. Marketing has helped make state lotteries into a $15 billion business. Have the states just scratched the surface?

Lottomania

By James Cook

WOULD YOU PAY $1 for a shot at winning $45 million? Eighty percent of New York State's 12 million adults would and did last December when Lottomania hit the state like a fever. At one point, New York was selling 28,000 tickets a minute at some 5,600 terminals around the state. By the time the drawing finally took place on a Saturday night 37.4 million tickets had been sold in only three days.

The prize was that big because in Lotto the jackpots roll over every time nobody wins. The jackpot had started out four weeks before at $3 million and, when nobody won, moved up in stages to $17.5 million, to $26 million, and finally, under the pressure of booming sales, to $45 million. That prize, the largest in New York's history, was split 12 ways, after which the rest of New York shrugged and went about its business.

A pot that large is still an exceptional event, but mass participation in the lotteries is not. Lottomania has been gathering momentum throughout the country for nearly a decade. It's already the second-largest form of gambling in the U.S. and is rapidly overtaking the casino take in Las Vegas and Atlantic City. For the fiscal year ended June 1988, the U.S.' 29 functioning lotteries piled up $15.6 billion in sales, about as much as the U.S. primary aluminum industry did, and brought a dazzling 37% of that $15 billion down to net income, earning close to $6 billion for state governments, with no apparent pain to their taxpayers. This year the figures should be considerably higher, since state lotteries have been growing an average of 17.5% annually—roughly as fast as the computer industry.

No fewer than 28 states, the District of Columbia and two U.S. territories were in the business last year, up from 13 only a decade ago. Two of them—Virginia and Wisconsin—are just getting their lotteries under way, while the voters of four additional states—Indiana, Kentucky, Minnesota and Idaho—approved lotteries in last fall's election. That puts over 68% of the U.S. population on the bandwagon. Of the 18 states that remain, only Texas has a substantial population, and most of the rest are in the South.

"These are the old Bible Belt states," says Saul Leonard of the accounting firm of Laventhol & Horwath in Los Angeles. "You probably won't see lotteries in most of the others, at least not in the next several years—unless they find themselves desperate for funds." They may well find themselves desperate. Florida, Kentucky and Virginia have already broken ranks in the South.

In New York, the lottery's able acting director, Russell V. Gladieux, hopes to boost the lottery's sales and earnings between 50% and 75% within three years, a goal that implies at least $1 billion in profit by 1991 on a $2.3 billion sales base. If he achieves his goal, he will be something of a hero in a state that currently faces a $2.6 billion budget deficit.

There's surely room to grow. New Yorkers spend far less on the lottery per capita ($91.17 last year) than residents of neighboring Pennsylvania ($121.48), New Jersey ($152.07), Connecticut ($158.53) and Massachusetts ($234.92), the industry leader.

The days grow hot, O Babylon!

For many Americans the success of the lotteries seems yet another symptom of the long-term decay of the nation's cultural values, a softening of its moral fiber, a preference for speculation rather than for hard work. Gambling is not only accepted by the states but actually encouraged by them. But the truth is that lotteries are as American as Mom, apple pie and the American Revolution. Lotteries financed the founding of Jamestown, the Continental Army, Dartmouth, Harvard and Princeton, and public works from roads to canals. Ever since the founding of the republic, politicians have loved lotteries as a painless alternative to taxation. Or they did until a series of scandals in

Eddie Keating

Lining up for New York's Lotto
In December, 80% of the state took a chance.

the mid-1800s closed them down for a century *(see box, p. 95)*.

The modern lottery got going in the mid-Sixties when first New Hampshire and then New York voted to go into the business. The public yawned. You bought a ticket, waited weeks or months for the winning number to be drawn, and probably ran out of patience. Much as Americans liked to gamble, they did not like to wait for the results. They wanted instant gratification.

That's when modern marketing hit the lottery business. New Jersey came up first with a weekly and then a daily drawing, and a year or two later Massachusetts quickened the pace with an instant game—scratch-off tickets on which the win or loss could be determined immediately.

But what really transformed the business was the computer, which permitted high-volume, high-frequency player-active games, games in which players could pick the numbers themselves. And then in 1978 New York introduced Lotto, with its multimillion-dollar jackpots, and the game soon became a really big business. Manufacturers of instant games and computerized lottery systems got behind the politicians, and in many states—California and Oregon, for instance—they even wrote the initiatives presented to the voters.

It wasn't a hard sell. Let one state go into the business, and the state next door would follow suit sooner than lose revenues across the border. Most states committed the proceeds to specific beneficiaries and picked up some powerful support. The funds went to education, to taking care of the poor or the elderly, to assisting local communities and the arts, to funding economic development, to building parks and recreational facilities, and to almost any other worthy cause you can think of. Why not harness frivolous instincts to serve worthy causes?

Beyond the state governments and the lottery promoters, small business was another winner. The agents that sell the tickets, tens of thousands of them—some 11,000 in New York, 14,000 in Florida, over 20,000 in California—are card shops and gas stations, supermarkets and funeral parlors. As Saul Leonard calculates it, commissions average around 5.5 cents on the dollar, so last year the agents took in roughly $860 million

Photos by Ted Morrison

Big business

The U.S.' state lotteries posted steady if relatively moderate sales gains all through the Seventies, but with the introduction of Lotto the industry's sales abruptly took off.

nationwide. That 5.5% average covers a lot of variation, depending on how much incentive the retailer needs to take on the lottery—as little as 4.1% and 5% in Massachusetts and Oregon, as much as 11.5% and 12.1% in Rhode Island and Iowa. For most of these merchants, the lottery commissions are found money and traffic-builders.

Some merchants say they carry lottery tickets only for competitive reasons: If the competition has a lottery agency, you'd better get one yourself. But where the population density is low, as it is in West Virginia, say, or South Dakota, the lottery may serve mainly to build foot traffic, and more foot traffic generally means more business, unless, as is currently happening in Florida, it creates so much lottery foot traffic the agent has trouble conducting his regular business. Winn-Dixie's 470 Florida supermarkets got out after eight months because it was costing them twice as much to service the lottery as they were getting in commissions.

After the states themselves, the most visible winners in the business, of course, are the people who supply the hardware and software to run the lotteries. That includes Bally Manufacturing's Scientific Games, British American Banknote and Webcraft, among the instant-game suppliers; Control Data's Ticketron, Gtech, General Instruments' Amtote and Syntech among the on-line terminal suppliers. Not to mention the telephone companies that provide the dedicated phone services, the courier services that deliver the instant tickets, the financial institutions that supply the prize-money annuities and the inevitable advertising and public relations firms.

For all their growth, the lotteries have not yet realized anything like their potential as money raisers. As against some $200 billion estimated to be wagered in the U.S. every year, the lotteries get only $15.6 billion. But their competition is severely limited. They do not really compete with Las Vegas and Atlantic City or with sports betting. They compete for the consumer dollar in the same sense that all leisure-time ventures do. And within their narrow range, they have something akin to a monopoly and, in fact, do not hesitate to rack up what in any other business would be called monopoly profits. On average, the lotteries pay out less than 50% of the take in prizes, versus 60% for the illegal numbers games, 80% for pari-mutuel horse racing and as much as 95% for roulette and slot machines.

In most states, the legislature specifies how some or all of the lottery funds can be spent—how much for prizes or operating expenses, or how much returned to the state—and those percentages can hobble the effective operation of the lottery.

Until the legislature finally changed the rules last fall, the Missouri lottery operated under more severe restrictions than most. It could not spend more than 10% of sales on operating expenses, had to pay out 45% in prizes and return 45% to the state, and was hampered from advertising its products. Not surprisingly, the lottery was unable to generate anything like the sales volume its promoters projected for it.

Ed Kashi

California's lottery director Chon Gutierrez
Numbers were cold, distant and impersonal.

In competing for a share of the consumer dollar, the state lotteries must use every marketing tool available. Lottery players are so unpredictable that lottery sales often fluctuate wildly. Oregon expected to net $30 million last year, but wound up with $52 million. California, on the other hand, went from $1.8 billion in 1986 to $1.4 billion in 1987 and back to $2.1 billion in 1988. Both Colorado and West Virginia last year suffered more than a 17% decline in sales.

Basically the lotteries have three products to sell: instant (scratch-off) games; numbers (pick 3 or 4); and Lotto (pick 6 for a jackpot that rolls over every time it isn't won).

That's the business. But the lottery directors can change the structure of the games—how often they are played, how many prizes are awarded and how big they are, how heavy the odds are. And they can change the name, change the theme, try to make the old appear ever new. As California's acting director Chon Gutierrez puts it: Churn out Classic Coke, New Coke, Diet Coke, caffeine-free Coke, caffeine-free and sugar-free Coke.

What works in one state doesn't always work in another. In the East, you sell through the newsstands, tobacco shops, card shops and convenience stores. In the West, through supermarkets and superstores. Instant games are a winner in New England but also-rans in places like New York and Maryland. Numbers have never caught on in the West, but on the East Coast, where people have played the illegal game for generations, they're a big and consistent winner.

California and New York hyped their Lotto sales by going from once-a-week to twice-a-week drawings, Illinois by going from twice weekly to once weekly. Massachusetts prospered by adding a second super lotto, Mass Millions, to its Megabucks game. New York cashed in by collapsing three games into two.

The trick may be simply to change. Offer something that looks new. Says Oregon's director James Davey: "We have gambling themes, we do Olympics. At Christmas we do Holiday Cash. With Lucky Stars we play on people's astrological signs. We find that if you run two or three, four or five games at the same time, you'll sell more tickets. People say, 'I'm not lucky at Lucky Stars, but I'm sure good at basketball.' "

In California, the lottery discovered some players preferred letters to numbers, so the lottery may introduce a new game, Winitials, based on letters of the alphabet. "People said that numbers were cold and distant and didn't have any personal meaning," says Gutierrez.

In New Jersey they are ordering their instant tickets with three different background colors. "People say, 'That's different,' " says the lottery's director, Barbara Marrow. " 'That must be new.' "

Some of the marketing gets pretty imaginative. In Oregon they link an instant game to a weekly television show, *The Money Game*, with a grand prize of $50,000. California has its Dreaming Campaign—you dream about what you'd do if you won. New

York has adopted the same theme and the slogan "All you need is a dollar and a dream."

But dreams are what the lotteries peddle. When Augustin Jombo won a $26 million New York Lotto jackpot in January, the *New York Times* headlined the story: "Lotto winner's 'American Dream' comes true."

But the ultimate marketing weapon is the size of the pot. As Massachusetts' lottery director James Hosker sees it, there are still some basics to the business—like giving your customers value for their money. "The odds don't matter," Hosker says, "but people want to see winners. We set up the prize structure so we have a lot of winners in the store. It's not a mathematical formula, it's a human relations formula."

The Hosker strategy works—instant tickets went from 50 million in 1982 to a probable 600 million this year. Massachusetts' is generally recognized as one of the best-run lotteries in the country, and it boasts the highest per capita sales in the business. One reason is that Massachusetts has been paying out more and more of the lottery's sales in prizes, as much as 60%, versus 45% only five years ago. "Why not give the customer 60% of his money back?" Hosker says. "If people like your game, they'll play it, and you get more for yourself in the long run."

Rich Frishman

The Oregon Lottery's Saturday night Money Game
Forget the odds. Winners are what matter.

Lotto carries the contradictions of the lottery to their ultimate extreme. The jackpots are huge, so huge that the less likely a player is to win, the more likely he is to play. The rewards so far exceed any conceivable cost that people who normally don't play the lottery plunk down their dollars.

But those prizes don't simply happen. They're made to happen. In the beginning at least, 20% to 25% of the possible number combinations aren't picked, so the jackpots keep rolling over, and to ensure that they do, the states have increased the odds against winning. Instead of picking 6 out of 48 numbers, New Yorkers now pick 6 out of 54, and the odds have gone from 6 million to 1 to 12.9 million to 1 for a $1 bet.

Lotto players are attracted in part by the sheer size of the potential winnings. In fact, the winnings are not quite as big as they are advertised to be. Million-dollar jackpot winners have been dismayed to discover that a $1 million jackpot means only $35,000 a year (after taxes) in 20 annual installments. Florida's $55 million jackpot winner will get only $2.7 million a year over 20 years (less after taxes). Florida simply buys an annuity that will yield $55 million over 20 years. The present value of that annuity is not $55 million but only $26 million.

New York's Russ Gladieux explains: "Say you expect to take in $4.5 million. When you take out the state's 45% share and 15% in operating expenses, and apply the current annuity factor of 2.1 to what remains, that would generate a $1.9 million jackpot." The annuity cost: just $900,000.

But if the lottery is such a pain-free moneymaker, why doesn't the federal government set up one of its own and cut down the staggering federal deficit? Because the states couldn't take the competition. "The states would lose too much," Saul Leonard says, "so I can't see the representatives from such states voting for it."

Lotteries tap some of the most primitive, mysterious and contradictory impulses in human nature. Unlike many other forms of gambling, the lottery doesn't require any skill,

Where there's a will . . .

In the 18th and 19th centuries, lotteries were both public and private enterprises, and they were a big business. In 1832, for example, Philadelphia's 200 lottery shops held over 420 drawings for prizes totaling $53 million. (That would come to something like $600 million in today's terms.) With money like that involved, the temptation was irresistible for promoters to cook up schemes to rig the draw or counterfeit the tickets or finagle the prizes or just walk off with the proceeds in their pockets.

In an 1818 case, the manager of New York's Medical Science lottery regularly fixed the draw. In one instance, the small boy who drew the tickets pulled three out of the wheel and dumped them into the lap of the manager, who promptly announced a fourth as the winner. Its owner claimed the winning number had come to him in a dream.

The bigger the business got, the worse the abuses. Bowing to pressure from the abolitionists of the time who were outraged for moral reasons, 12 states had outlawed lotteries by 1840, and the rest by 1878, except Louisiana, which finally banned them in 1894.

Thanks largely to its computer controls, the modern lottery has remained remarkably scandal free. There have been incidents, but they have been largely contained. In 1980 some Pennsylvania lottery officials fixed the game by injecting liquid latex into most of the balls used in picking the winning numbers so that the winning numbers flew up. They were caught before they collected their prizes and spent two to five years in jail. New York more recently found some employees in the lottery mail room guilty of fraud. Officials in a number of states have been accused of favoritism toward vendors, but that's unethical, not larcenous.

But nobody is complacent. Probably from the moment some Roman concocted the first lottery 2,000 years ago, another Roman began thinking of ways to cheat at it. As Massachusetts' lottery director Jim Hosker puts it, "There's some guy out there right now saying, 'How can I beat those bastards?' "—J.C.

any knowledge: Winning or losing is a matter of sheer luck. Yet though most players know their fate rests in the hands of Providence, they nonetheless cultivate the illusion that somehow they can control the outcome of the game. And so, if they don't win, they feel the fault is somehow theirs—they failed to bet their sister-in-law's anniversary or the numbers they saw on a license plate the week before through the windows of a bus.

Take Augustin Jombo, the man who won New York's $26 million lottery in January. Jombo picked his winning number—6, 14, 15, 41, 45, 51—by playing off three digits, 4, 1, 5, the month of his birth (4), the year of his birth (51), its reverse (15), its sum (6), and combinations of the three. Which tells you everything and nothing. But how else do you discipline the possibilities of the infinite?

A small industry has sprung up providing strategies for winning the lottery—dream books, winning numbers, horoscopes—and if those seem too primitive, you can turn to the more familiar witchcraft of modern technology and let Gtech's computer-controlled Quickpick find the numbers for you to bet. "Picking numbers for the Lotto game," the Iowa lottery concludes, "is an exercise in individuality that many players take seriously."

Are the lotteries making the poor noticeably poorer, taking bread out of their children's mouths, and turning responsible citizens into compulsive gamblers? The lottery's too new for the evidence to be in, but at this point the answer is, probably not. One Veterans Administration study indicated that the lottery is much less likely to lead to compulsive behavior than playing the stock market.

A young Pennsylvania couple, Tom and Philomena Drake, quit their jobs, sold everything they owned, and over a three-month period spent $15,000 on lottery tickets. It would be comforting to report that they lost their shirts. But they didn't. They came out $1,000 ahead.

The money most people put in the lottery won't break them, but it will give them pleasure and excitement and supply the government with revenue at the same time. Why be a spoilsport about it? ■

The lottery industry

The players, state by state, ranked in order of their annual revenues.

State/Year started	Total revenues* ($mil)	% change ('88–'87)	Revenues per capita	Prizes as % of total revenues	Operating exp as % of total revenues	Net income ($mil)	% of revenues to state
California/1985	$2106.4	49%	$74.78	49%	13%	$804.0	38%
New York/1967[1]	1632.0	8	91.17	47	9	725.6	44
Pennsylvania/1972	1461.0	9	121.48	50	10	592.9	40
Ohio/1974	1411.0	31	129.78	48	14	545.6	38
Massachusetts/1972	1379.2	8	234.92	59	10	434.8	31
Illinois/1974	1337.8	2	115.89	51	13	487.9	36
Michigan/1972	1246.4	19	134.02	46	15	488.4	39
New Jersey/1970	1174.0	3	152.07	49	9	500.9	42
Maryland/1973	811.4	6	174.72	48	9	352.2	43
Florida/1988[2]	658.3	—	106.36†	—	—	—	—
Connecticut/1972	513.8	5	158.53	51	10	202.70	39
Washington/1982	215.7	10	46.69	47	15	83.3	38
Virginia/1988[3]	200.0	—	100.07†	50	15	70.0	35
Arizona/1981	172.7	21	49.82	45	17	66.3	38
Oregon/1985	160.7	58	58.63	50	16	55.0	34
Missouri/1985	152.4	–15	29.65	45	11	66.6	44
Iowa/1985	129.6	36	45.73	51	18	40.2	31
Wisconsin/1988[3]	125.9	—	77.75†	51	—	—	—
Washington, D.C./1982[4]	124.5	1	200.80	49	17	42.5	34
Colorado/1983	93.3	–19	28.35	50	22	26.4	28
Kansas/1987[5]	92.0	—	36.99	44	36	19.1	20
Maine/1974	82.4	41	68.32	50	17	27.2	33
New Hampshire/1964	76.9	31	70.10	49	15	27.9	36
Rhode Island/1974	62.3	6	62.61	51	14	22.0	35
West Virginia/1986	56.6	–17	30.04	45	27	15.5	28
Delaware/1975	55.6	21	84.24	53	10	20.5	37
Vermont/1978	35.0	37	62.94	52	17	10.9	31
South Dakota/1987	26.4	—	36.92	45	25	7.8	30
Montana/1987	21.7	–	26.99	45	16	8.4	39
Total	**$15.6 billion**	**17.48%**	**$93.73**	**48%**	**15%**	**$5.74 billion**	**37%**

*Year ended June 30, includes other income †Annual basis [1]March fiscal year [2]Jan to June 1988 [3]Sept to Dec 1988 [4]September fiscal year [5]Calendar year

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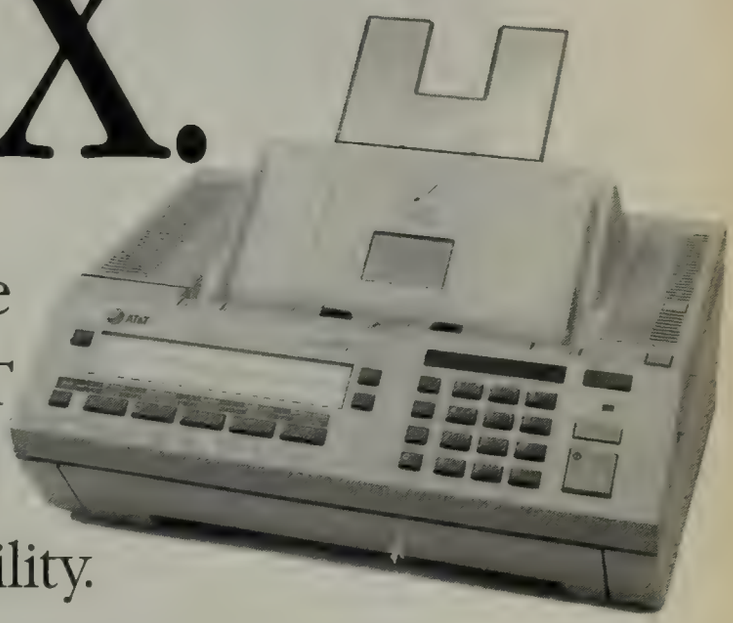

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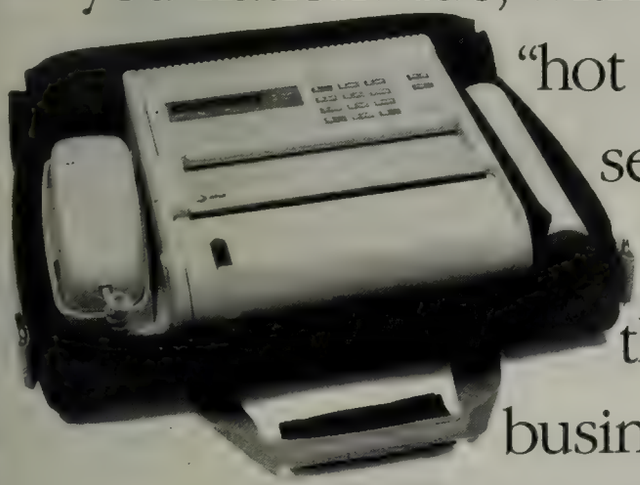

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To Measure Our Success I

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Quantum Chemical Corp. recapitalized itself, giving shareholders, not takeover artists, full benefit of the deal.

Saddled with debt but still able to grow

By Ruth Simon

"WE'RE GETTING BENEFIT for shareholders without selling out the store," says John Stookey, chairman of the $2.9 billion (sales) petrochemical company now called Quantum Chemical Corp. but known throughout most of its long life as National Distillers. "This isn't another strip-the-company recapitalization," Stookey adds. "We keep the clothes on in this one."

The new Quantum is loaded with debt—$2.5 billion—and will soon be bereft of some $350 million (sales) in specialty chemical businesses. But, unlike most asset-stripped companies, Quantum retained its independence and core business while leaving enough cash and borrowing power to expand.

Quantum Chemical Corp. Chairman John Stookey
"We keep the clothes on in this one."

How did a liquor company become a chemical company? Years ago it diversified into chemicals. Then, two years ago, it sold its liquor business. It now gets 23% of its revenue from the distribution of propane gas; 77% comes largely from polyethylene, the plastic used in everything from bottles to food wraps.

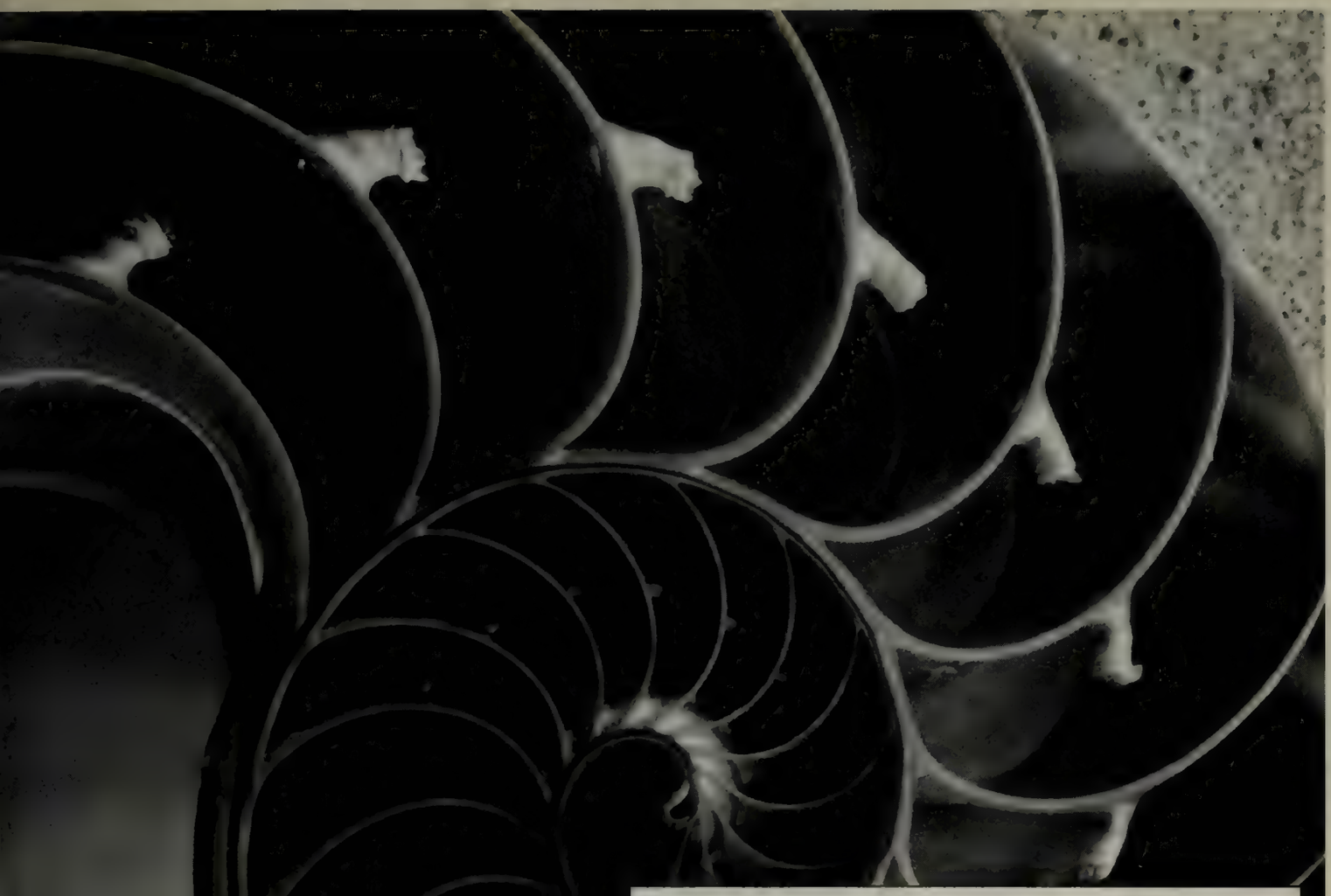
An industrial engineer who honed his financial skills analyzing venture capital deals, Stookey, now 59, found himself sitting pretty when the chemical boom began three years ago. Problem was, Quantum was vulnerable to a raid. Even after an ambitious stock buyback, shares sold for just six times expected 1988 earnings. "We announced super third-quarter earnings, increased the dividend, and the stock headed south," he complains.

Stookey decided to head off the raiders at the pass. He would restructure the company himself, in effect taking out some of the equity capital and giving it to shareholders as a special dividend. Just after Christmas Stookey announced that Quantum would sell $1.2 billion in bonds and nearly $300 million worth of specialty chemical assets. With the proceeds, he announced payment of a special $50-a-share cash dividend, a payout equal to 56% of Quantum's predeal stock price.

Stookey's investment bankers at First Boston Corp. and Dillon, Read & Co. had recommended that Quantum pay out $100 a share. Stookey rejected that out of hand since it would have meant eliminating his ambitious capital spending program.

Thus, as such things go, the recapitalization was relatively conservative. Quantum still has $2.90 of earnings for every dollar of interest, a cover more than double the 1.25 ratio that the investment firm McKinley Allsopp calculates prevails for most recapitalized companies. The recap also left Quantum's basic operations intact: The specialty chemicals business Stookey is selling accounts for just 11% of revenues and 5% of operating earnings.

Even stripped of much of its equity capital, therefore, Quantum can continue to invest for the future. With his still-strong after-interest cash flow ($19 a share this year), Stookey feels he can spend $1.3 billion for new plant construction, including $70 million on two new research and de-



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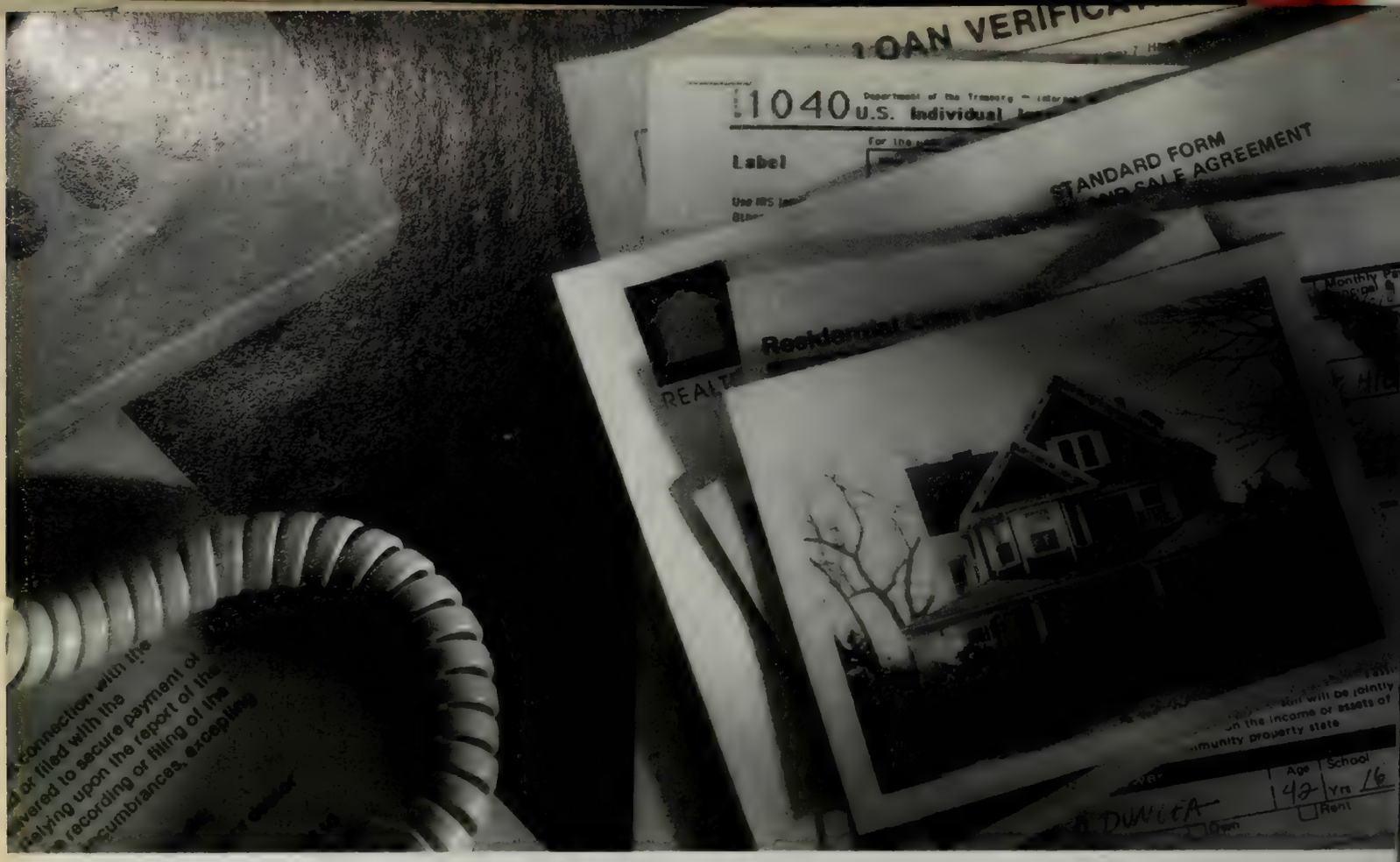

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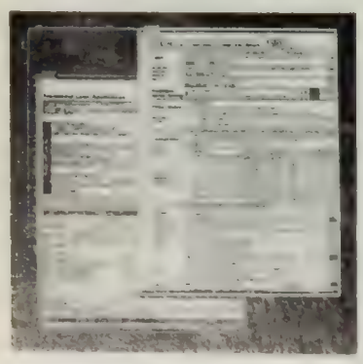

[illegible] mortgage [illegible] documents.

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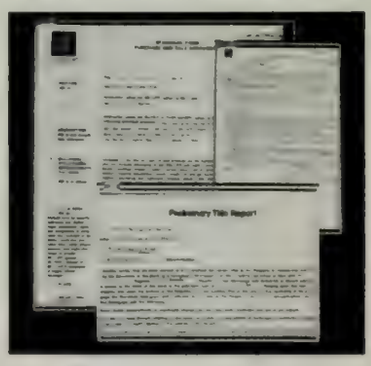

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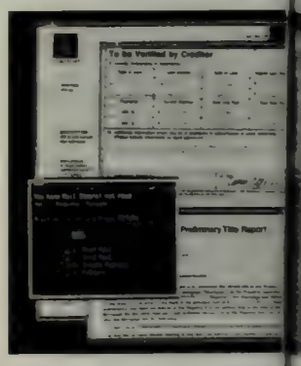

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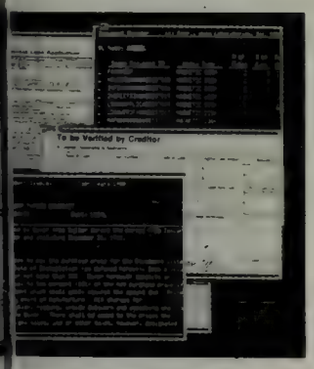

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velopment facilities. He has also retained Quantum's $3-per-share dividend and has increased retiree benefits by 5%.

Shareholders are quite happy: The stock now sells at 57⅜. Adding back the cash dividend, they have 107⅜ for shares that sold as low as 49 after the October 1987 crash. And, in a better stock market, the shareholders could get further gains: The current stock price is just four times expected 1989 earnings of $15 per share.

The $1.3 billion that Stookey plans to spend on new ethylene and polyethylene plants will boost Quantum's output by 40%. With the chemical cycle near its peak, is this smart? Stookey believes it is, since, with a modest recession, demand for these chemicals will grow by at least 3% per year anyway.

Unlike most asset-stripped companies, Quantum retained its core business while leaving enough cash and borrowing power to expand.

The new ethylene plant that Stookey is planning will also give profit margins a boost. That's because Quantum now buys half its ethylene on the open market, paying far more than it would cost to produce the chemical itself.

During the last chemical cycle overexpansion, when business fell off, operating rates dropped to just 68% of capacity. Can it happen again? Maybe, but the situation is different in many ways. Total planned future expansion for the industry is nowhere near what it was at this stage of the last cycle. Moreover, the price of oil, the basic feedstock in commodity chemicals, is now about half what it was at the start of the decade, when the oil majors were scrambling to get in on the petrochemical production game. Just the normal growth of the economy means increased demand of about 3% annually.

All this suggests that, except under the most apocalyptic of circumstances, operating rates are not likely to fall to anywhere near their earlier levels.

The new Quantum is certainly highly leveraged, but say this for it: Unlike in many takeovers, management remains in the hands of people who know the business. If leveraging makes sense, this management wisely reasoned, why not do it ourselves and let our own shareholders get full benefit? ■

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With a sharp eye on the profit statement and a focused approach to diversification, Ameritech stands out as one of the best run of the former Bell companies.

Good connection

By Charles Siler

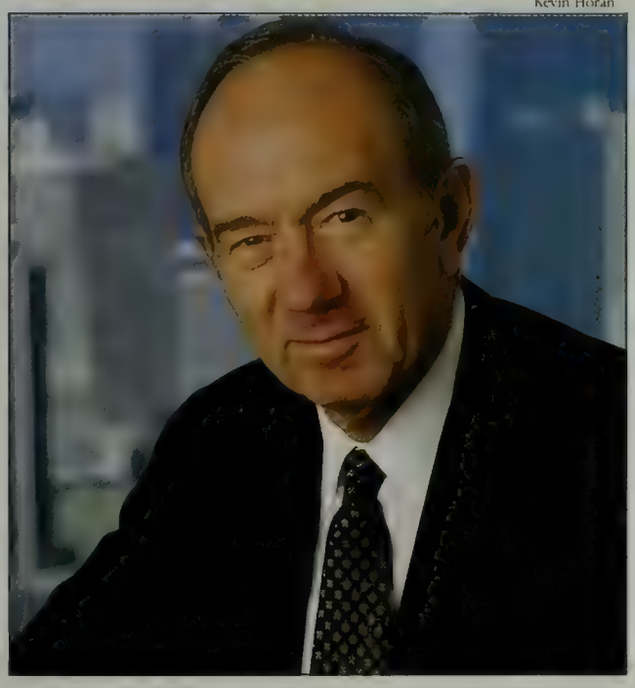
BELLSOUTH CORP. sells telephone systems in Shanghai; Nynex Corp. has plunged into the computer retailing business; US West Inc. is leasing office space in Honolulu; and Bell Atlantic Corp. does computer maintenance.

All this is understandable. Technology is changing so fast that no communications company wants to be locked into a single form of transmission. Besides, these new businesses are not subject to the same stifling limits on profits that telephone companies suffer from. Among the former Bell companies, some of the most disciplined diversification seems to be taking place at Chicago-based Ameritech, the $9.9 billion (revenues) outfit that has Bell operations in Illinois, Wisconsin, Ohio, Indiana and Michigan. While its sister phone companies are investing wherever they see opportunity, Ameritech is expanding its cellular, paging and other phone-related businesses closer to home. It is diversifying among modes of communication but is staying geographically compact.

In so doing, Ameritech has racked up the highest average three-year return on equity of the regionals, 15.4%, compared with an average of 14.1% for the group. Last year profits rose 4.1%, to $1.24 billion, while BellSouth and Southwestern Bell reported earnings gains of 1.2% or less. The price of Ameritech's stock, trading recently at 52, has more than doubled since 1984, adjusted for splits. That, too, tops the average of the other six regional phone companies. This year earnings are expected to grow 3%, to $1.27 billion.

Ameritech's chairman and chief executive, William L. Weiss, explains his strategy: "We have got one of the finest companies in the world in our basic telecommunications business. To the degree we take our eye off that and do too many other exotic things, we may very well begin to lose some of the thrust of our basic business."

Kevin Horan



Ameritech's William L. Weiss
Avoiding "exotic things."

Take cellular phones, where Ameritech is building on its home turf at relatively low cost. Southwestern Bell paid $1.4 billion for Metromedia Co.'s cellular and paging operations in September 1987, including about $400 million to get into the big Chicago cellular market with its population of 8 million. But Ameritech built its Chicago stake from the ground up, investing a tenth as much.

Why be so cautious? "You buy a cellular property at today's prices and you will probably not begin to return something to your shareholders for eight to ten years," says Weiss, 59, a career Bell executive who has run the company since divestiture.

Diversification aside, Weiss has become a leading crusader for relaxed regulations. States now limit return on investment generally in the range of 13% to 15%. This is a damper on investing to improve productivity, because all of the gains get passed on to the consumer, leaving little or nothing to reward the innovations. "If they give us the incentive to earn more, while keeping prices stable for the customer or at a very acceptable or nominal level of increase, we have the best business in the world right here," Weiss says. "So regulatory change is really more important to me than any acquisition I could make." He would like to see phone company prices regulated instead of profits.

In the meantime, Weiss is buying some small companies that can provide the potential for offering new services to Ameritech's midwestern customers. In October he purchased Dallas-based Tigon Corp., a voice-mail company that sells messaging services. Weiss hopes to use Tigon as an add-on service for his midwestern business customers. Ballwin, Mo.-based Old Heritage Advertising & Publishing, purchased in May 1986, is giving Ameritech access to more Yellow Pages advertisers in the Midwest. Old Heritage publishes telephone books in midwestern areas served by independent phone companies. Now businesses use Ameritech to reach customers in different phone service areas.

So far, there's been just one rotten acquisition—the January 1986 purchase of Applied Data Research Inc., a Princeton, N.J. software company that was supposed to provide Ameritech with improved programs for its central switching computers. The venture flopped, and Weiss sold the company in October for $170 million, about $47 million less than he paid for it.

"The deal wasn't what we thought it was in terms of synergies with our business," Weiss says. A close-to-home investment that looks good to Weiss is his company's own stock. In the past four years Ameritech has bought back 8.8% of its outstanding shares. Here's a company that's clearly on the right track. ■

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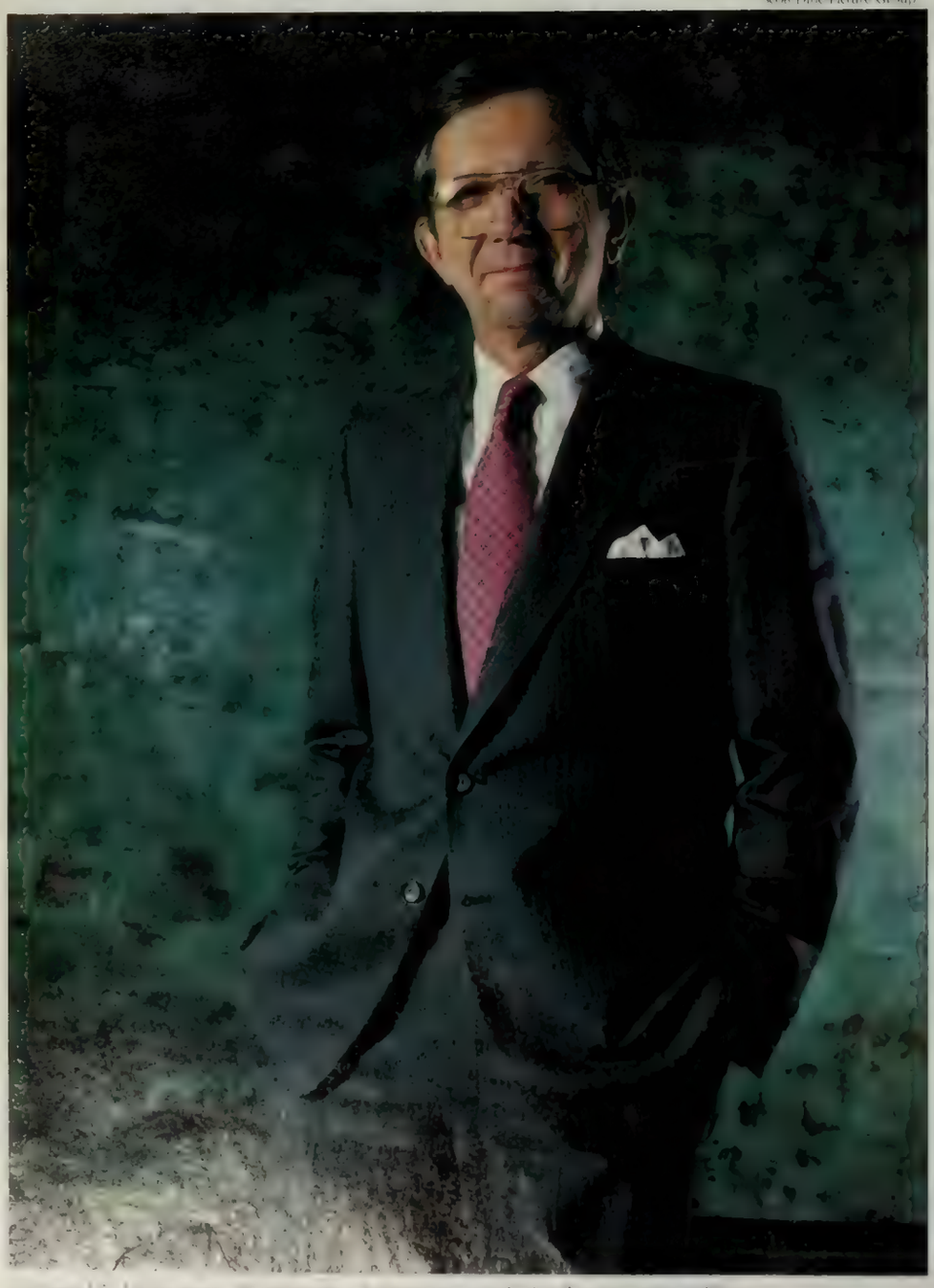
Like Winston Churchill, Monsanto's Richard Mahoney puffs good cigars. That's not the only way Mahoney emulates Churchill.

Blood, sweat and profits

Scott Dine-Picture Group



[illegible] Monsanto Chairman and chief executive officer [illegible] covered while he advances.

By Rick Reiff

WINSTON CHURCHILL is Richard J. Mahoney's idea of a skillful strategist. "As he was being buried in the rubble, he was already thinking past the Germans," marvels Mahoney, chairman and chief executive officer of $8.3 billion (sales) Monsanto Co.

Like his hero, Mahoney, 55, smokes good cigars, a couple of $1 Honduran imports daily. He also emulates his hero when it comes to forging long-range strategy. Mahoney wants to be remembered as a leader who, like Churchill, keeps his eye focused clearly on the long-term goal without being distracted by day-to-day successes and failures. His long-range goal is to change Monsanto from a chemical company to a biotechnology company.

Since 1981 Mahoney has sold businesses that were mainstays of 88-year-old Monsanto—petrochemicals, polystyrene, benzene, raw fibers, paper chemicals, oil and gas—shedding about $4 billion of annual sales. Even though many of these businesses are thriving under their new owners, an unapologetic Mahoney says they did not fit his long-term strategy.

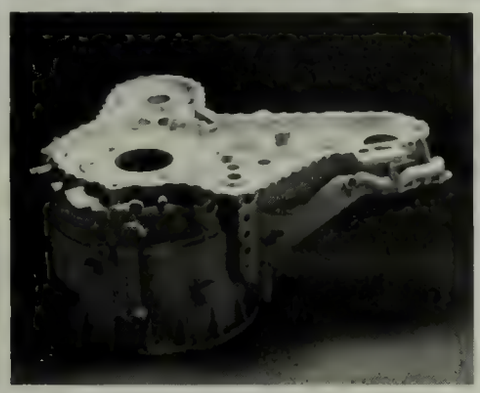
Elevated in place of the departed businesses are activities that used to be sidelines—farm products, specialty chemicals, plant and animal genetics and, with the $2.8 billion purchase of G.D. Searle & Co. in 1985, research into kidney and heart failure, nervous disorders, hypertension and AIDS.

"It's a very solid mix, higher-value products not subject to what goes on in oil prices or whatever. It has far more to do with what we do in our heads," says Mahoney.

Monsanto, in short, is a quite different company from the Monsanto of a half-decade ago.

But has the strategy worked? Looks that way. Earnings rose 36% last year, to $591 million, or $8.27 a share. At the same time return on equity hit 15.6%, Monsanto's best since 1974. At its recent price of 92½, Monsanto, now almost immune to a downturn in the chemical cycle, was selling for 11 times 1988 earnings, compared with a price/earnings ratio of 8 for commodity-loaded Dow Chemical.

Mahoney's key? Better than most, he has protected his mature, high-profit businesses to give himself time to develop their replacements. In strategic terms, this amounts to keeping his flanks well covered while he advances. Example: Even though the patent expired two years ago on a big Monsanto moneymaker, Lasso, the



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Diane Schmidt

Sheldon G. Gilgore, Searle's chief executive officer
Adding marketing savvy and new profits after four years of losses.

nation's most widely used corn and soybean herbicide, Monsanto's threat to discount the product for private-label distributors has frustrated copycats. Another of its cash cows, the artificial sweetener NutraSweet, may soon face new competition in the diet soft drink market, but it seems to pop up in another product every month on supermarket shelves. The most recent: cookie fillings. And steadily profitable chemical products like shatterproof windshields, detergent compounds and stain-resistant carpets still bring in half the sales.

Just as important, Monsanto invested early and broadly in biotechnology—$1 billion over the past ten years. That's critical in a field where thousands of experiments may produce one winner and the journey from test tube to market can take a decade. Monsanto has been recruiting top talent since 1979; by 1984 it had a $150 million life sciences research center and a web of patents in plant genetics. To extend Monsanto's biotech reach into pharmaceuticals, Mahoney paid a steep 18 times earnings for Searle and doubled its research budget to $200 million a year. But the price may not be too high: Searle doctors are probing potential hypertension remedies using a hormone discovered by a Washington University scientist attached to Monsanto's corporate crew. And, by teaming with the agriculture group and Oxford University, Searle has readied a promising AIDS treatment for clinical tests in just one year.

Searle shows how Mahoney buys time. Although it has lost $439 million since 1985 and has yet to produce a breakthrough product, Searle should turn profitable this year on sales of $1.2 billion—nearly double those in 1986. Searle Chief Executive Sheldon G. Gilgore, a former Pfizer, Inc. executive, has added marketing savvy. His crew, for example, turned a dull angina treatment into a dandy hypertension drug, Calan SR. Result: sales of $240 million last year, more than $300 million expected this year.

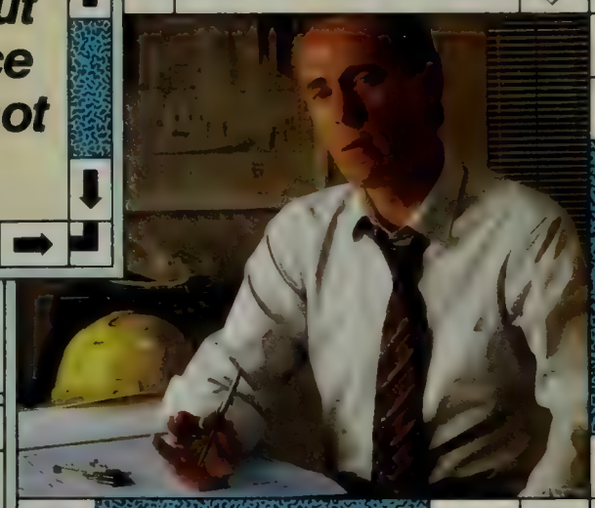
Several other products that Monsanto expects to roll out this year could produce sales of better than $100 million a year. They include Cytotec, the first drug approved in the U.S. for the prevention of gastric ulcers caused by arthritis medicines; Simplesse, a low-calorie fat substitute for ice cream and salad dressings; a crabgrass killer; and a cow hormone—Monsanto's first biotech product—that boosts milk production. It is working on such gee-whiz products as cotton plants that emit chemicals that kill hungry boll weevils.

One worry: the more than 450 lawsuits filed by women claiming injuries from Searle's Copper-7 intrauterine device. But Searle has won 15 of the 19 court trials thus far, and at that rate, says Mahoney, will recoup some of the reserves that it set aside to pay damages.

The biggest threat to Mahoney's plans could be a raider. Analysts figure the company would be worth around $160 a share broken up.

The ultimate payoff for Mahoney's strategy is, admittedly, still in the future. But while many competitors drop out of the biotech scramble, Monsanto strengthens its position in what some envision as a $100-billion-a-year industry by the year 2000. Charles Arntzen, former agricultural biotech chief at Du Pont and now director of biosciences at Texas A&M University, says Monsanto has the best biotech program of any company anywhere. John Templeton, whose investment company holds 1.2 million Monsanto shares, says of Mahoney's shift to biotech: "We don't see a better way to do it." ■

"I don't want to hear about trading 386 performance for portability...It's just not an option."



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A curiosity wrapped in a mystery

By Ellen Paris

LOU PURMORT loves to talk most about two things: himself, and the wonderful company his American Toxxic Control, Inc. will someday be. If the names ring a bell, it is because Purmort appeared in these pages nearly two years ago, boasting of his achievements and promising great things for his hazardous waste cleanup company (FORBES, *July 27, 1987*). American Toxxic, Purmort promised, would go after the on-site hazardous waste cleanup business by acquiring a number of companies with complementary technologies. It would then build turnkey systems to sell to large chemical companies, like Dow and Du Pont, for $25 million to $50 million each. This, said Purmort, was similar to the strategy he had used to build United States Filter Corp., a liquid filtration and water-pollution control company, into "a billion-dollar company" before selling it to Ashland Oil in 1981.

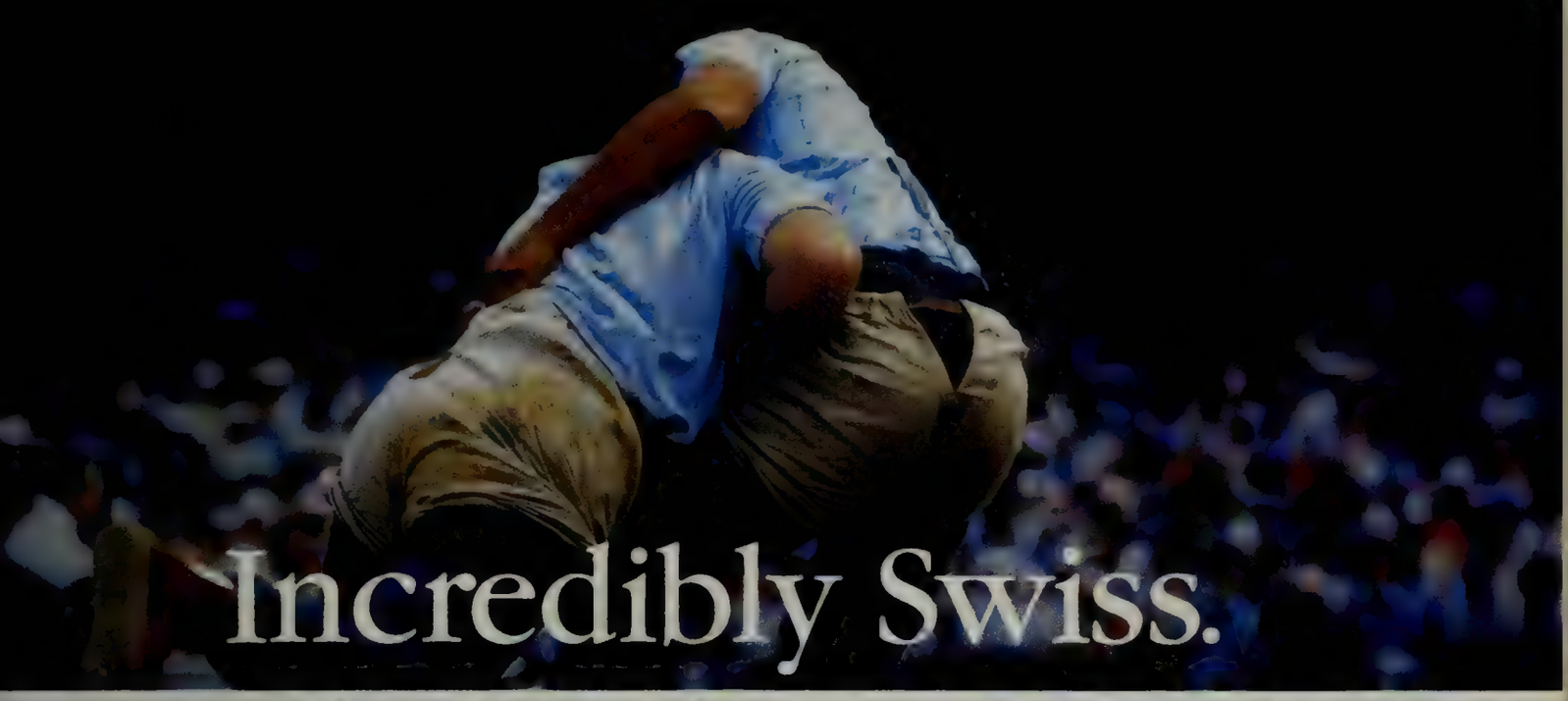
Today Purmort's claims and promises seem mostly empty. In mid-1987 Purmort claimed American Toxxic was profitable, and that fiscal 1988 revenues (for the year ending Mar. 31) would reach around $25 million. But in fact sales barely hit $13 million, and the company lost $1.5 million. For the six months ending last Sept. 30, revenues just nudged $9 million and American Toxxic reported another loss. But never mind. Purmort now claims he will do $75 million in sales and earn over $4 million for fiscal 1989, ending Mar. 31.

Investors are growing weary. American Toxxic's stock, which in 1987's bull market jumped from 75 cents a share (bid) to $2.50, has since slumped to around 70 cents.

That fading stock is a serious problem. Purmort's plan is based on pay-

Alejandro Tomás

[illegible] founder Lou Purmort [illegible] embellishments.



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ing liberal amounts of stock in American Toxxic (originally a shell called Novan Energy) for the small toxic waste technology companies he wants to acquire. Explains Purmort: "They're private companies and would like liquidity, so they would like publicly traded stock."

It's a clever strategy. If the business works out and the stock rises, everybody makes money. If the business doesn't work out, Purmort doesn't lose much real money. On the other hand, if the stock hits the wall, so does Purmort's acquisition strategy.

Purmort says he needs at least nine acquisitions to make his concept viable. In 1987 he claimed to have completed four acquisitions. That was indeed stretching things. Purmort had completed only two acquisitions and signed letters of intent on the others.

The major acquisition Purmort was counting on to boost revenues and earnings was Crosby & Overton, a Long Beach, Calif.-based toxic control company. But the deal has since fallen through. Explains Paul Dent, Crosby & Overton's secretary-treasurer: "Purmort claimed up until the end that he had the money. But he couldn't come up with the money, and the owners wanted cash, not stock."

Purmort had better luck with BCL Associates, a Huntington Beach, Calif.-based engineering company that specializes in hazardous waste investigations. In March 1988 Purmort offered Robert Litzenberg, BCL's president, and four other senior managers 6.3 million shares of American Toxxic, then worth almost $7 million. This seems a high price for a company that in 1987 lost $188,000 on revenues of $3.4 million. But remember: Purmort was paying not with money but with stock. Today the stock is, in theory, worth around $4.7 million, but it can't be sold until 1990. "It's all futures right now," says Litzenberg wistfully.

It's a clever strategy. If the business works out and the stock rises, everybody makes money. If the business doesn't work out, Purmort doesn't lose much real money. On the other hand, if the stock hits the wall, so does Purmort's acquisition strategy.

Lou Purmort is a curiosity wrapped in a mystery. A man of some significant accomplishments, he nonetheless feels compelled to embellish those accomplishments.

Take Purmort's war record. Purmort claims he enlisted in the Marines at the age of 15, and saw action as a pilot in "Pappy" Boyington's famed Black Sheep squadron during World War II. According to U.S. Marine Corps records, Purmort was indeed a pilot. But the Marines say he was not a pilot with the Black Sheep squadron; the squadron's intelligence officer says that he never heard of Purmort.

"There were two groups," insists Purmort, lamely. "I was in the second Black Sheep group, the replacement squad, not the first." (A Marine Corps spokesman says there was no such group.)

According to Purmort and his corporate biography, he completed a premed program at the University of Wisconsin in 1942. But according to the registrar's office Purmort attended only two semesters and one summer school session, in 1942 and 1943. "I did an 18-month course which was three years condensed," says Purmort when asked about the discrepancy. Purmort also claims he did graduate

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work at California Institute of Technology. Caltech has no record of him.

Then there's the question of Purmort's age. Purmort claims he was born in 1929. University of Wisconsin records say he was born in 1924.

And what of Purmort's claim to have built U.S. Filter into "a billion-dollar company" before selling it to Ashland Oil in 1981? Ashland Oil spokesman Roger Schrum says, "He may have founded a part of U.S. Filter [there were many]. But according to our research he wasn't involved in the sale of the company."

To build credibility Purmort reached into his past last fall and bought back a portion of U.S. Filter from Texcel International, for around $3 million—in cash this time. "He [Purmort] is a man of hype, and I wouldn't take his stock," reports Texcel President Aron Govil. With the acquisition, Purmort hopes to gain both access to U.S. Filter customers and credibility. But success may still elude him. Purmort says he wants to supply equipment and to stay out of the service end of the business, for liability reasons. But according to Richard Fortuna, executive director of the Hazardous Waste Treatment Council, a Washington, D.C.-based trade association: "The real money is in the service, not just providing equipment. Most [waste-creating] companies are going to want to integrate [cleanup] capabilities and deal with as few vendors as possible. Reputation will count for something in this industry. A company with no background or reputation in the hazardous waste industry is a negative." Many industry analysts think companies that generate toxic waste will look to large national corporations such as Chemical Waste Management, Combustion Engineering and Westinghouse.

Lou Purmort's selling skills show no signs of fatigue. Last October he issued a press release claiming that American Toxxic "acquired" Hycor. Not quite. American Toxxic had only signed a letter of intent to buy Hycor; the letter expired last November.

What of Purmort's experience with U.S. Filter? Fortuna cautions: "The hazardous waste business is different from water pollution control."

Purmort still has his believers, among them Merrill Lynch. Last summer Merrill Lynch Business Capital and a small San Francisco investment fund provided American Toxxic with $4 million in badly needed cash in a debt financing. And even after the stock's retreat, American Toxxic's 112 million shares outstanding have a market value of around $78 million.

Lou Purmort's selling skills show no signs of fatigue. Last October he issued a press release claiming that American Toxxic "acquired" Hycor, a little liquid/solid separation company based in Lake Bluff, Ill. Not quite. American Toxxic had only signed a letter of intent to buy Hycor; the letter expired last November.

Richard Nalbandian, an investor from Detroit who has been burned on American Toxxic stock, recently phoned Purmort to complain about the lack of information from the company, and about the stock price. "In 6 to 18 months you will be absolutely ecstatic about your investment," Nalbandian says Purmort assured him. Nalbandian, who says he will hold on to the stock until the end of the year, adds: "He sure sounds good." ■

Strategy

When Kenneth Eldred started Inmac Corp., he had the computer accessories catalog business to himself. Since then, competition has reared its ugly head.

Shakeout

By Fleming Meeks

Jaime Tanaka

Kenneth Eldred

"Customers have had the impression we were a bit pricey."

SUCCESS IN LIFE has to be defined by a strong relationship with Him, with my wife and with my kids; the job gets what's left." So says Kenneth Eldred, citing 1 Timothy 5:8. Every Tuesday Eldred leaves work at 4:30 to lead a Bible study group in his Portola Valley home. "I am," he says, "probably one of the only entrepreneurs in the world who has developed a company on no money and 40 hours a week."

What Eldred doesn't put into his business in terms of quantity of time he more than makes up for in quality of time. He founded Santa Clara, Calif.-based Inmac Corp. in 1975 with just $5,000. Today Inmac is a $223 million (revenues for fiscal 1988, ended July 30) direct-mail marketer of computer supplies. Last year it sent out over 30 million catalogs featuring products like computer cables, diskettes, modems, surge protectors, printer ribbons and furniture. Inmac placed 31st on FORBES' list of the 200 Best Small Companies in America *(Nov. 14, 1988)*, with a five-year average return on equity of 28%.

Lately, however, Eldred has been obliged to spend more time in the office. Since last summer, Inmac's U.S. revenues have been flat (just over half of the company's sales last year came from Europe); earnings have peaked. Since June the company's stock has dropped from above 20 to around 8. On paper, Eldred's one-third interest in Inmac's equity has lost $40 million in market value.

Blame competitors attacking Inmac's high margins. For a box of ten standard floppy disks, Inmac charged about $13. The same disks could be bought from office product discounters like Office Depot or Office Club for half as much. Comparable price discrepancies also existed on consumable items—like ribbons and computer paper—which make up 30% of Inmac's sales.

Until recently Inmac could get away with such pricing, thanks to the same-day shipments and minimum one-year product guarantees it offered. In 1976, when Eldred and partner James Willenborg, then a Data General salesman, mailed their first catalog of minicomputer accessories, they pretty much had the computer aftermarket to themselves. Whereas an order from Data General or Digital Equipment for a computer cable, say, could take six to eight weeks to arrive, Inmac promised shipment within 24 hours.

"In the early days," says Eldred,

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"we made a lot of mistakes. But customers were so starved for product support they overlooked those mistakes." But lately, Eldred concedes, "Customers have had the impression we were a bit pricey."

A native Californian, Eldred, 45, holds an undergraduate degree (French and political science) and an M.B.A. from Stanford. He grew up talking about the technology business (his father, Noel Eldred, was an executive vice president at Hewlett-Packard) and spent four years in marketing at American Standard in New York. He returned to California in 1972 to join a startup company, Robind; it was sold to 3M in 1975, and Eldred set out on his own.

Inmac's first catalog was sent to 15,000 names from five mailing lists. The 24-page black-and-white catalogs, which cost 46 cents apiece to produce and mail, returned about $2.50 each in sales. "We figured we needed $1.10 to be profitable, so it looked like it would work," Eldred recalls. Within six months the company was in the black.

The company's U.S. and European mailing lists now top a million names each. This year Inmac will send 50 million catalogs, split evenly between the U.S. and Europe. Inmac's 216-page catalog, which offers more than 2,500 items, is long on explanatory text and frequently features comic photos, with headlines like "This could be the last day you fumble for all those *&!# switches." In addition, a 100-person direct sales force targets large accounts like AT&T and Lockheed—generally not to compete with their main suppliers, but to fill in the cracks on an as-needed basis. Last year alone AT&T bought over $1 million worth of computer accessories from Inmac.

To ensure fast service, Inmac—which manufactures 25% of its products and sells 90% of its product line under the Inmac name—has set up 15 U.S. distribution centers. That has put Inmac within overnight shipping distance of over 70% of the country's computers at standard United Parcel Service rates. And in 1980, recognizing that European businesses were using the same basic computer equipment as U.S. users, Inmac began selling computer accessories in England with a slightly revised catalog. There is a nice marketing twist here: Since European computer use tends to trail the U.S. by two to three years, Inmac's catalogs can be fine-tuned based on experience in the U.S. Last year Inmac's European sales topped $11 million, and they continue to grow at about 25%.

First priority now, however, is surviving the shakeout of computer accessory catalogs in the U.S. market. In the last six months two of Inmac's competitors, together representing over $100 million in sales, have gone under. And in February Inmac signed a letter of intent to acquire another competitor, Devoke Co., with estimated sales of $15 million; Eldred gives the deal only a 50-50 chance of going through.

Inmac's three principal remaining competitors—Global Computer Supplies, Misco and Black Box—have combined U.S. sales of roughly $140 million, and about $40 million in foreign sales. But their size has not kept them from cutting prices and putting pressure on Inmac's margins. So Eldred has responded. As of the first of the year Inmac cut prices on many of its largest-selling items by 40% to 70%. The box of diskettes that had cost $13 now costs $9, and in quantity can be as low as $7. To support the price cuts, Inmac has won concessions from vendors and has cut costs by buying more overseas, including through a new office in Hong Kong.

"In the early days we made a lot of mistakes," recalls catalog marketer Eldred. "But customers were so starved for product support they overlooked those mistakes."

"It's like 7-Eleven some years ago said that bread and milk were now going to be priced at Safeway prices," says Eldred. "It hurt them in the short run, but the mix of products ultimately took care of the razor-thin margins on milk and bread."

The fundamentals are encouraging. Inmac has virtually no long-term debt, and the installed base of personal computers, minicomputers and workstations is growing at over 15%. Salomon Brothers analyst Joan Merlis predicts Inmac's 1989 earnings will fall to 65 cents a share but then bounce back to over $1 in 1990.

Eldred won't comment on the estimates but does say he thinks it could take as much as two years to restore Inmac's old margins. "We knew the price cuts would affect our earnings," he explains. "But our view is that we want to build a long-range business here." Noting that management and directors own over half of Inmac's 9.4 million shares, he adds: "And we're in the fortunate position of not having to worry about corporate raiders." ■

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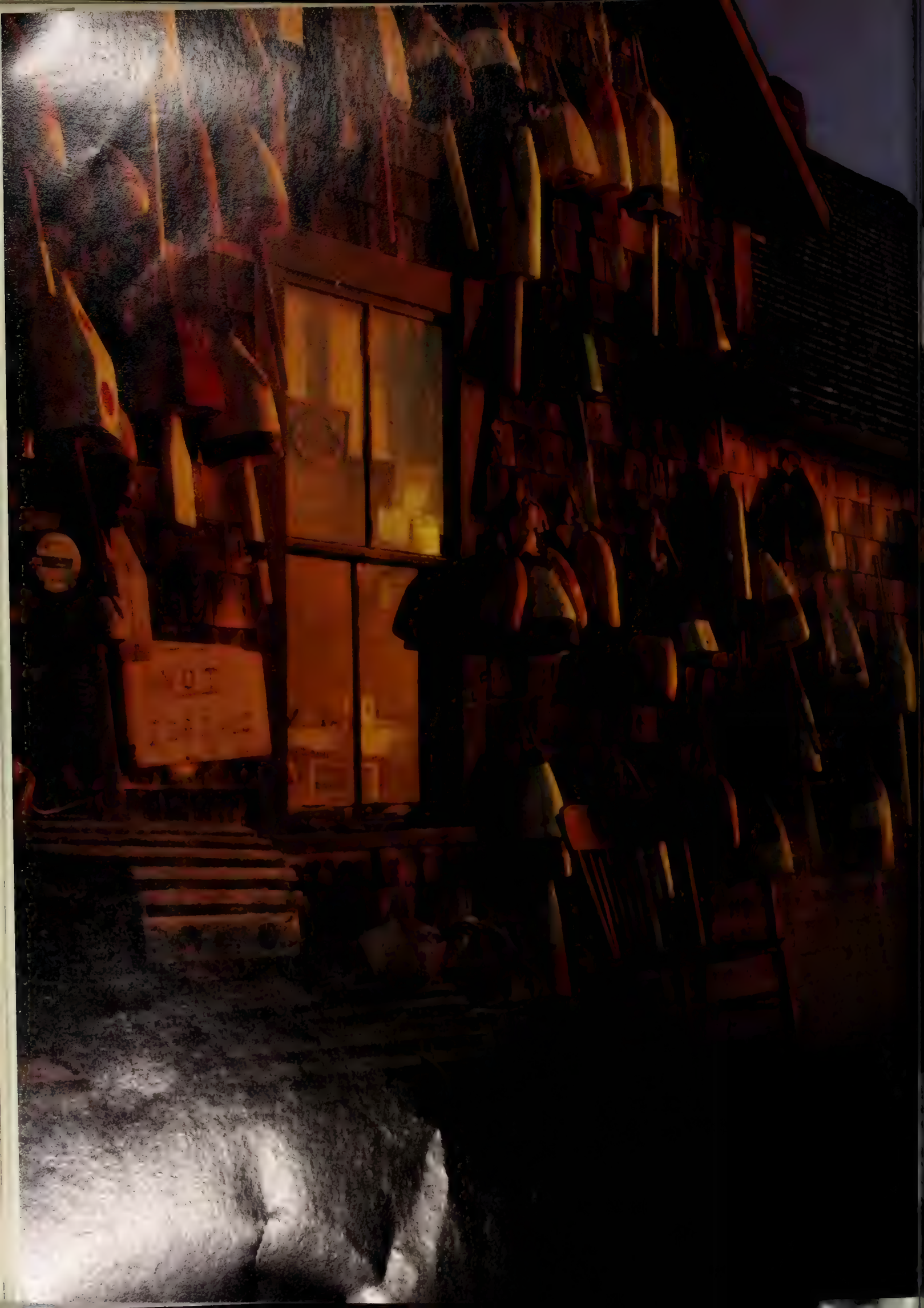

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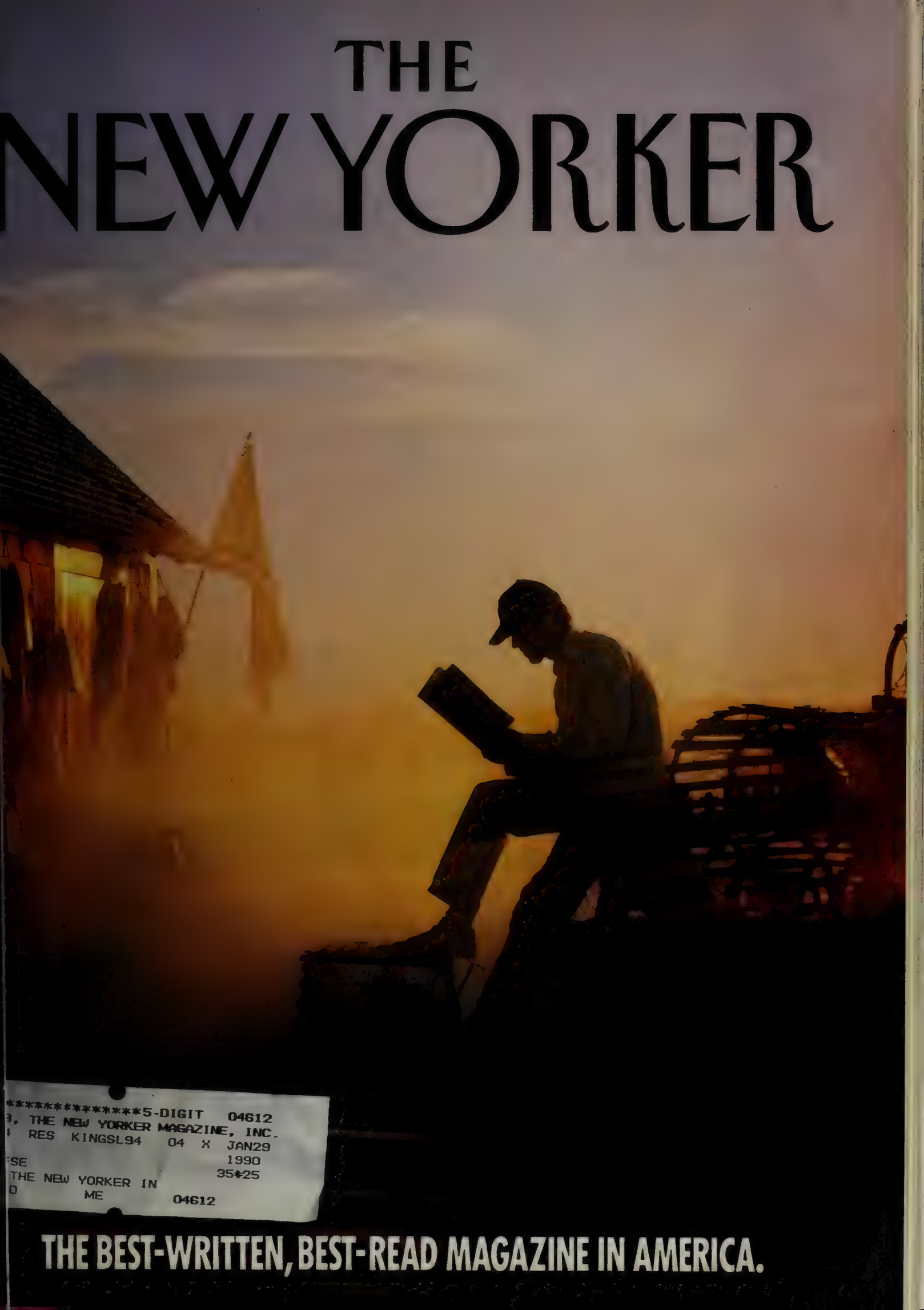

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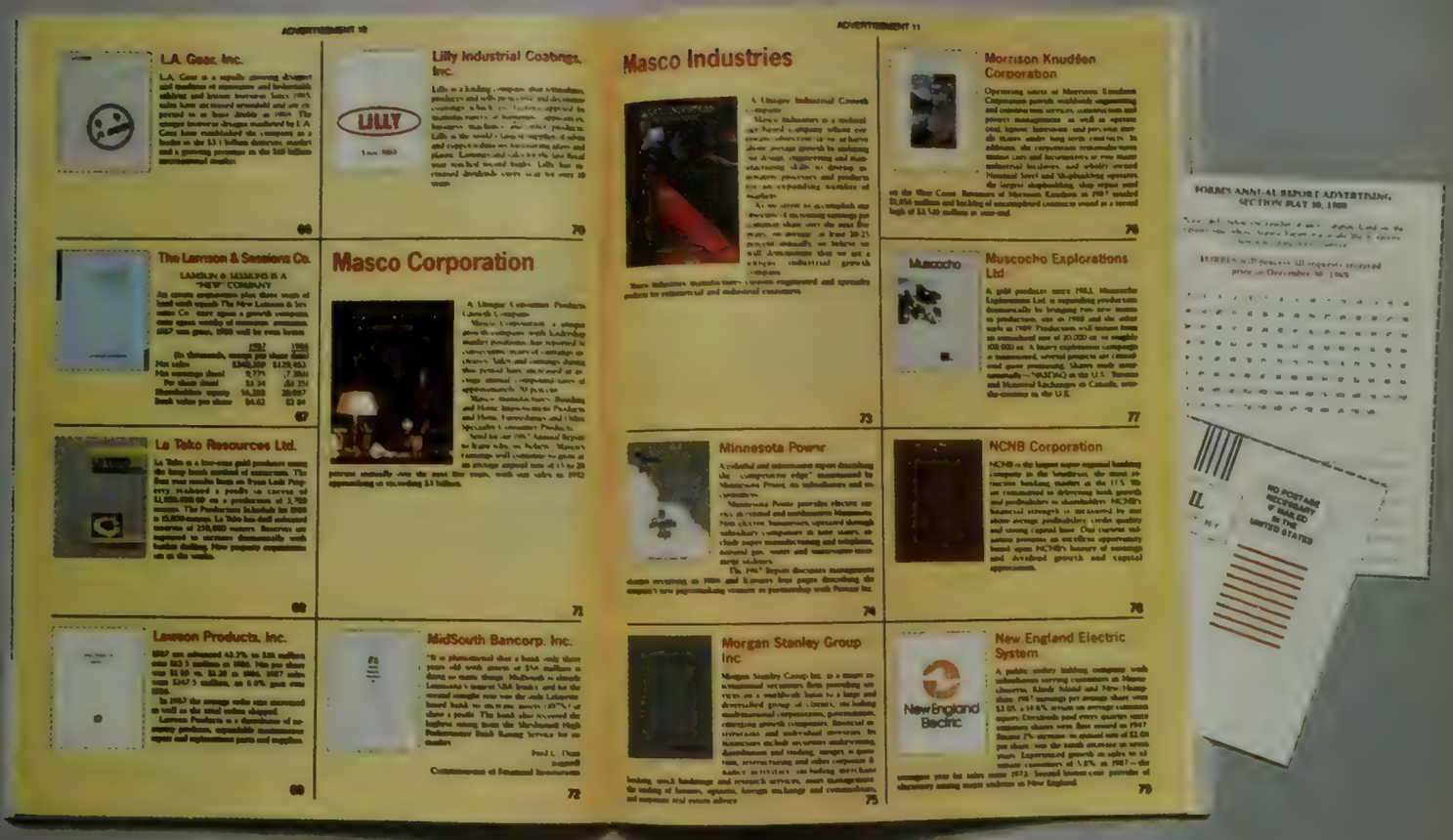

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Protection of intellectual property rights may have gone too far when creators of computer languages can claim that they own them. It is almost as if someone could copyright the alphabet.

Can Las Vegas sue Atlantic City?

By Kathleen K. Wiegner and John Heins

IT WAS A SMALL ITEM at the Constitutional Convention, thrown in at the suggestion of James Madison of Virginia and Charles Pinckney of South Carolina. Among the briefly enumerated powers of Congress was one to grant limited monopolies to inventors and authors. In 1790 Congress enacted the world's first comprehensive patent and copyright laws. Little noticed at the time, this enactment was a landmark.

England had already created a law of patents built around custom rather than formal statute. And it had issued copyrights, originally as a mechanism for censorship. But it was the Americans who saw in these forms of property a natural fit with a free enterprise society. Said Thomas Jefferson, an inventor and the first administrator of the American patent system, "The issue of patents for new discoveries has given a spring to invention beyond my conception."

Thus did our founding fathers encourage the future Edisons, McCormicks and Bells, songwriters, movie actors and computer programmers. Could they have imagined that entertainment would one day become one of the country's largest export industries? That intellectual property rights would come so far that Woody Allen could successfully claim a legal right not only to his name and his face but even to his very nerdish charm?

From this same instinct to protect [illegible] of invention came the pro[illegible] computer software, cur[illegible] jewels in our econo-

my, with U.S. companies controlling 60% of a $55 billion world market. But this system of intellectual property, which has created so much wealth, is now straining. Some of the country's best-known computer and software makers have become embroiled in a tangle of lawsuits. Depending on the outcome, the cases could drastically slow the rate of innovation that has kept U.S. companies well ahead of foreign competitors.

Ashton-Tate Co., Lotus Development Corp. and others, developers of software used on millions of computers, want exclusive rights not just to the way a computer accomplishes a certain task but also to the task itself. They want to own not just the insides of a computer program but its "look and feel." It's reminiscent of that recent court case in which Woody Allen stopped a clothing store from advertising itself with an Allen-like character. Says Phillipe Kahn, chairman of Borland International, which makes software products that compete with those of Lotus and Ashton-Tate: "It's as if Las Vegas were suing Atlantic City for copying its look and feel."

Who is answering this basic question of software ownership? Judges who don't necessarily know much about the technology whose future they are determining. They are stumbling from one hard case to another, making bad law built around an already obsolete 1980 software copyright act and around court precedents going back to the 18th century.

At stake is not just the profit margin of a Lotus or an Ashton-Tate but also the billions of dollars of their customers' money sunk into learning computer languages. Here we mean "language" in the very broad sense of whatever enables computer users to communicate with machines: the commands in Lotus' 1-2-3 spreadsheet package, the trash can pictured on an Apple Macintosh (which, when selected, causes a file to be discarded), the plus sign in a scientific program.

Computer languages are as essential to man-machine communication as human languages are to man-man communication. Without them, users would have to speak to their machines in the 1s and 0s spoken by the chips inside. The computer industry as we know it could not exist. Can you imagine having to type in several thousand 0s and 1s, in exactly the right order, to get your computer to print a letter?

The earliest software was thrown in free by computer makers to buyers o

© 1943, renewed 1971 DC Comics Inc. Photo by DiMicco/Ferris

The ABC caper

Can you copyright language? In this 1943 Superman strip, the Prankster gets a copyright on the alphabet and threatens to control all written English. Turns out that the Prankster has chained up the real registrar of copyrights and put in his place a phony, who issues the disputed copyright. Performing a task now usually reserved to appeals courts, Superman invalidates the copyright. It isn't clear, however, how Superman would rule if the Prankster had created a new form of language or a graphical user interface.

their systems. But nowadays software itself is a big business. Lotus Development netted $59 million on sales last year of $469 million, mostly of its 1-2-3 spreadsheet program. For the year ended in January, mainly from sales of its dBase products, Ashton-Tate earned an estimated $48 million on sales of $310 million.

Now the language makers are attempting to protect their competitive positions in the courthouse. Ashton-Tate is suing rival Fox Software, Inc., which makes products that can understand the command words of dBase. Lotus is suing two small software houses for selling imitations of its Lotus 1-2-3 language. Apple Computer, Inc. is suing both Microsoft Corp. and Hewlett-Packard Co., saying the companies illegally appropriated the "look and feel" of Apple's Macintosh computer screens. These companies are saying, in effect, that once you've learned how to add a new record to a dBase address file, or how to sort a list in 1-2-3, or how to trash a file on a Macintosh, you can't apply that knowledge to a rival product.

What's wrong with that? Shouldn't the creator of a new kind of software own it? Sure, but the question is how much can be owned. To use the gambling analogy, should Atlantic City be prevented from opening casinos if Las Vegas got there first?

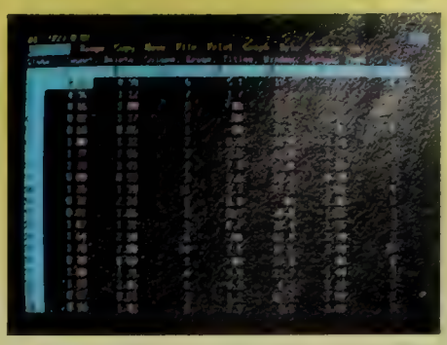
Unfortunately, the situation is much more complicated than that.

One of the things that make computers valuable is the portability of computer knowledge and computer programs. Lotus' 1-2-3 borrows from the first spreadsheet program, VisiCalc, and both Apple's Macintosh interface and Ashton-Tate's dBase language have their origins elsewhere. "It's important for languages to be public property," says John Backus, the IBM researcher who led the development of Fortran, the standard programming language for scientific applications, in 1957. "If you want to get something done, you don't want to have 50 different languages."

Imagine the confusion when the developer of the first modern typewriter patented the placement of the keys, so that succeeding typewriter makers had to change the order of the keys to avoid infringement. That way, if you learned typing on one keyboard, you had to relearn to use a different keyboard. That's comparable to what Ashton-Tate, Lotus and Apple are trying to do.

Four million copies of 1-2-3 have been sold, for at least $300 apiece. That billion-dollar investment, however, pales beside the human capital

Steven Borns



Lotus eaters

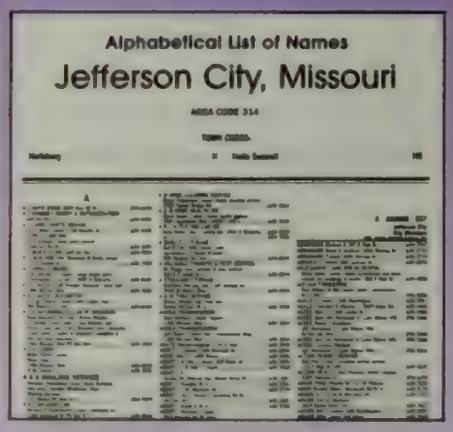
The enormous popularity of Lotus Development's 1-2-3 has made its commands—sequences like WORKSHEET-FILE-SAVE—almost a lingua franca among spreadsheet users. But this language won't be franca for long, if Lotus wins pending copyright lawsuits against Mosaic Software and Paperback Software (USDC-Mass., Nos. 87-0074-K and 87-0076-K). Both of these cloners have reverse-engineered the Lotus software, creating programs that respond to almost all of the Lotus commands and display spreadsheets almost the same way. Above, a Lotus screen is on the left, a Mosaic screen on the right.

invested in learning how to work a spreadsheet using the Lotus language. There are some 7 million 1-2-3 users worldwide, and Berkeley, Calif.-based software consultant Judd Robbins estimates that it costs—very roughly—$1,000 (including both direct costs and lost time from other work while training) to train someone in 1-2-3 to get a minimum level of proficiency. Two million copies of dBase have been sold for an average price of $420; some 5 million users have learned the language.

Then there is the time and money that companies spend developing custom applications around dBase and 1-2-3. A company might spend millions of dollars creating programs consisting of computer commands written in the dBase language *(see sample, p. 136)*. Nolan, Norton & Co., a technology consulting unit of accounting firm Peat Marwick, did some arithmetic on these costs. It found that about 70% of the $18,000 total annual cost of running a single business personal computer is in technical support, training and internal software development. Add it all up and you get big trouble for users if the copyright hardliners win their cases.

Fox Software's FoxBase isn't a copy of dBase by a long stretch. In its Dec. 12 issue, [illegible]*rld* published benchmark comparisons of several database products. It [illegible] dBase III Plus, the version [illegible] most use, took 87 minutes [illegible] sort 100,000 records of a test file, while [illegible]Base+ took 24 minutes. The new, improved dBase IV was somewhat better than its older sister, at 60 minutes. Not surprising that Ashton-Tate wants to outlaw the 24-minute version.

So, how much power should the creator of a new language have? Users, of course, want competitors to be allowed to innovate around a standard like 1-2-3 or dBase. "If [software] protection becomes too all-encompassing," says Robert Martin, manager of executive support systems at Eaton Corp., the industrial equipment company, "there will be less incentive to continue to innovate." Users also would benefit from price competition between software originators and their rivals. "I don't know if users would have gone with Lotus 1-2-3 if they knew it would end up being something Lotus could monopoly price," says Ronald Evans, director of end-user computing at Nolan, Norton & Co., "but they did, and now they're stuck." Stuck? Lotus and the other strict interpretationists see it differently. A legal monopoly is what a patent or copyright is all about. It's the reward for invention. Further, Ashton-Tate worries that look-and-feel protection is necessary to prevent foreign competitors from flooding the market with cheap copies of popular



Who has the facts?

You can't copyright a fact, such as the population of Tallahassee, but you can copyright the expression or compilation of facts, such as an almanac. The rule works passably well in a world of book publishing. It can't cope with the world of database publishing.

One court held that Telerate could prevent another company from selling software that helps users manipulate securities price data provided by Telerate. Another ruled that Moody's could copy bond redemption listings published by a competitor.

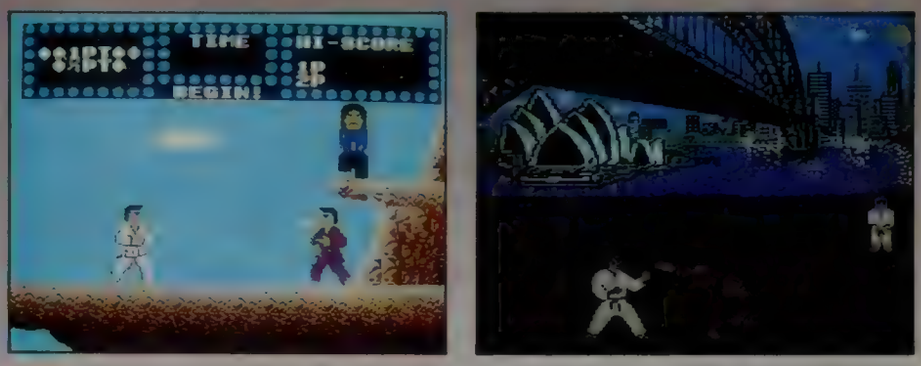
Independent effort to improve a database has traditionally been sufficient to avoid infringement claims. But in United Telephone Co. of Missouri v. Johnson Pub. Co., Inc. (855 F.2d 604, 8th Cir., 1988) the court ruled that the "expression" of United's Jefferson City White Pages (right)—alphabetically, with addresses and numbers—was protected. The case gives United control over the White Pages market in its area.

software programs.

Courts, alas, have come to this debate with a very confused law of intellectual property that ill fits the computer age. "Managers are in the difficult position of having to run 21st-century businesses with guidance from a 19th-century legal system," complains Peter Marx, counsel for the Information Industry Association, a trade group.

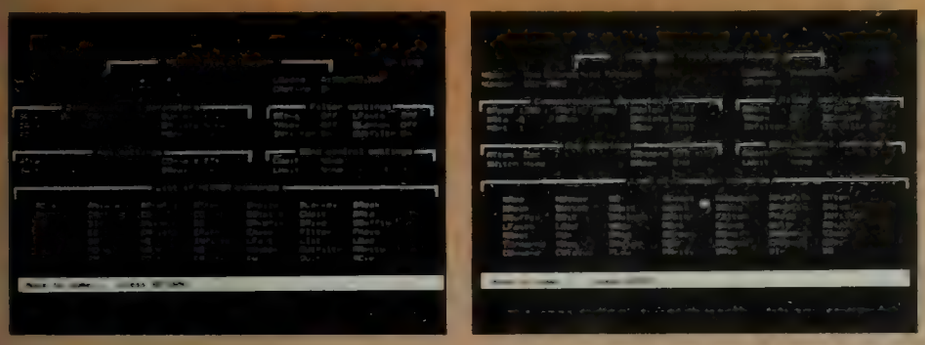
Traditionally, the patent system has protected "functional" works, the machines and processes that helped fuel the country's growth. Alexander Graham Bell's telephone, Thomas Edison's incandescent electric lamp and Henry Ford's transmission mechanism all received patents. Patents are powerful, since they rule out look-alike designs, even those independently arrived at. But the standards are high: The device must advance the "state of the art" to qualify. Moreover, the public filing means that, following the relatively short protection period of 17 years, other inventors have the opportunity to improve upon patented works.

The copyright system has traditionally protected works with aesthetic value: music, literature and art. The protection is weaker: Generally, only substantial copies of a copyrighted work are illegal. Coverage lasts for the author's life plus 50 years (or, in the case of a work-for-hire, for 75 years from publication).



The karate kids

An idea cannot be copyrighted, but the expression of an idea can. In 1986 videogame maker Data East USA, Inc. charged that the copyright on its popular karate championship game (left) had been infringed by a karate game from rival Epyx, Inc. (right). A lower court ruled that Epyx had copied the "look and feel" of the Data East game. An appellate court later ruled otherwise (Data East v. Epyx, 862 F.2d 204, 9th Cir., 1988). That court said that a certain amount of similarity was inevitable between the games, given that both show karate. After all, the video designer can't copyright a jump kick.



Electronic "forms"

In Baker v. Selden (101 U.S. 841, 1880) the Supreme Court decreed that a book consisting of blank bookkeeping forms and an explanatory introduction was copyrightable, but the forms themselves were not. Relying on this precedent, SoftKlone Distributing copied four screens from a competing software product in designing a program that helps computers communicate via modem. These screens, SoftKlone thought, were electronic forms and therefore not copyrightable. The company that created the original package, called Crosstalk, sued over one screen (left). A court ruled that the copyright for a whole program did not necessarily protect that program's screen displays. But it ruled in favor of Crosstalk (right) because its originator had filed a separate textual copyright on the screen in question (DCA v. SoftKlone, 659 F.Supp. 449, NDGA, 1987). Precedential value: considerable, in favor of creators who want an exclusive on the "look and feel" of their software. Practical value to the Crosstalk market: none. In four hours, SoftKlone changed the offending screen. Both brands of the software are still being sold.

If the two sets of rules are different, it is for a very good reason. Society is not harmed if Margaret Mitchell and her heirs own an exclusive on *Gone with the Wind* for 50 or 100 years. If it's overpriced or badly edited, you can always buy some other novel of love in a time of civil war, if that's what you need.

It's a good thing, though, that the fellow who came up with the idea of putting a gasoline-powered engine on wheels couldn't stop Henry Ford. George Selden, the self-proclaimed "inventor" of the automobile, did get a very broad patent, but Ford defeated it in a long court battle. After that, an inventor such as Ford could still get a patent on a particular transmission, but couldn't prevent rivals from getting the same results with different arrangements of gears.

Congress decided in 1980 that computer software was more like a novel than a transmission, even though it has elements of both. That's when the problems began.

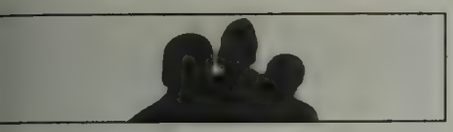
"What you have is copyright giving effective, long-term monopolies to functional subject matter that would not have qualified for patent protection," argues Stanford law professor Paul Goldstein, a leading expert on intellectual property.

Consider Intel Corp.'s long-running suit against Japan's NEC Corp., resolved only last month. Intel alleged that NEC had copied "microcode"—computer instructions etched in silicon—from two of Intel's microprocessors. Was microcode, even though

Bruce Sobolov, Director,
Equipment Planning and Administration,
Election & Survey Unit, CBS News

Laura Gismondi,
Account Executive,
AT&T Data Systems Group

Bruce Goldberg,
Area Technical Manager,
AT&T Data Systems Group



uce Sobolov of CBS News, Laura Gismondi and uce Goldberg, AT&T, savor the afterglow of their vn post-election victory. They take us behind the enes for a glimpse at some of the reasons why CBS as successful on election night.

FEBRUARY 15, 1989

AT&T: Afterwards, the critics said BS was the best, the fastest.

CBS: Right, but we sweated it out r more than a year. Vith more 20-hour ays than I care to member.

AT&T: Your sitation was pretty omplicated.

CBS: We were faced with election rojections, exit-poll analysis, and her studio programming applicaons running on IBM hosts.

AT&T: Plus the NewStar system e tied in with our wide-area netork, ISN. It's distributed networked omputing. Hey, we thrive on this uff.

CBS: We're impatient around re. Speed is the only way you suced with election coverage. The first ing we did was provide multi-host cess with the 6500 System. Last elecn, everybody who needed access to o systems used two terminals. vice the space, twice the cable, addinal controllers, added expense, d wasted time.

We had programmers working nultaneously on three host applicans, two bisync, one SDLC. They re constantly skating between terinals, wearing ruts in the rug. Now y have access to multiple sessions nultaneously from one terminal.

Skating between terminals put ruts in the rug.

AT&T: The data moves over twisted pair, the same type wiring the technicians pulled for your System 75 PBX. That made sense.

CBS: An added advantage was having the same dedicated AT&T technicians installing and maintaining our system, providing consistency to my operation.

AT&T: But really, Bruce, why us?

CBS: Your responsiveness. At CBS, we all agreed that what we needed was someone who could deliver it fast, install it, test it, and support it. And you were hungry. You never said, "No, we can't do it." And you never took long to say "yes."

AT&T: You had computer networking problems. Solving them is the house specialty.

CBS: We do distributed computing to the nth degree. Our reporters are all over the country. They call in their results when the precinct closes. Before, we had over a hundred operators standing by, with phones and terminals. That election night we introduced the voice response system running on AT&T PCs.

AT&T: How many calls?

CBS: Thirty, thirty-two calls at once, reporters everywhere having voice response conversations with the IBM host. And all done with the same custom host software we always used. We greatly reduced our cost.

AT&T: The other networks are watching, thinking, "How come CBS has the results already and we don't?"

CBS: It was a good night for us. Now the name of the game is streamlining for 1990. We're talking about a networked computer solution as a gateway into different host systems.

AT&T: With the AT&T Systems already up, running, and in place, we can almost completely automate your survey system.

CBS: That's a real big plus for all of us.

AT&T: Something tells me I've seen that same glint in your eye before. (Laughter)

The CBS Solution:

THE CHALLENGE:

Integrate IBM and DEC host computers and NewStar editorial system. Build an advanced computerized voice response system to speed election-night projections.

THE SOLUTION:

AT&T 6500 Multifunction Communication System with multi-host sync/async 6529 terminals. AT&T CONVERSANT• Voice System for advanced communications running on AT&T WGS computers. AT&T System 75 PBX. AT&T Information Systems Network (ISN), a wide-area network.

THE RESULT:

CBS News provided fast, accurate election coverage throughout Campaign '88. The *Baltimore Sun* reported that, "CBS was recording results in all sorts of key races faster and with far more authority than either of the other networks."

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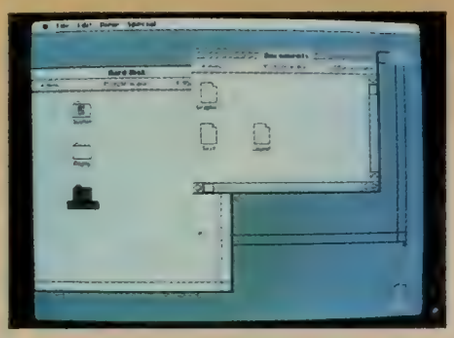
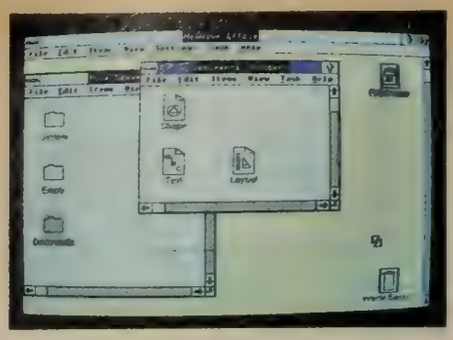




Iconology

Apple popularized an easy-to-use way to get a computer program to file, store, print and the like that relies on "icons" like trash baskets and file folders (left). Users would be thrilled to have such symbols standardized. But when Hewlett-Packard (right) and Microsoft adopted similar screen formats, Apple sued (USDC-S.D. Calif., No. C 88 20149). Both defendants have countersued, charging Apple is using the lawsuit to block their own innovations.

part of a silicon chip, a computer program protectible by copyright? The federal judge hearing the case said it was. But the judge also ruled that NEC did not infringe, since it claimed it developed its chips through legal reverse-engineering techniques.

Or take Lotus' suits against Mosaic Software's Twin and Paperback Software International's VP-Planner. Lotus doesn't claim that either program copies 1-2-3's program code. Rather, the imitators have created, from scratch, software that duplicates the behavior of 1-2-3. Thus, having learned the 1-2-3 language, you can shift to one of the rival products with little adjustment.

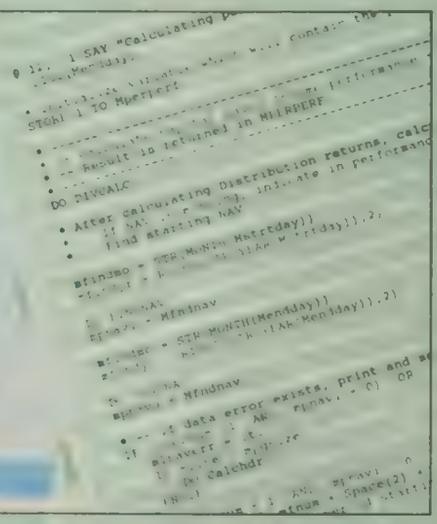
Think of it this way: You learned to drive a manual transmission Ford. Now Chevrolet comes out with a car with a manual transmission. Chevy didn't copy the gears. But it so engineered the thing that you can switch brands without learning to drive all over again. Ford sues.

Apple Computer, in its suit against Microsoft and Hewlett-Packard, tries to take the concept of compatibility a bit further. Building on some innovations made years earlier by Xerox, Apple developed the snazzy Macintosh graphical interface. Instead of having to type in commands like "delete" or "store," a user points at screen pictures of a trash basket or a file folder. If Apple wins, competitors won't be able to utilize similar characters, which would make trouble for everyone who has invested any effort in learning this graphical language.

Ashton-Tate goes further, claiming that the "screens, menus, file structures and dBase language" embodied in its products are "an integral part of the look and feel elements of dBase." In short, it wants to own not just the software that translates this language into machine instructions but the language itself.

Computer talk

The program excerpted at right contains 39,700 lines of code. It was written for use with Ashton-Tate's dBase III Plus. That is, dBase comprehends commands like DO and STORE and ENDIF. The customer purchased several copies of dBase from Ashton-Tate, then spent more money to get the competing FoxBase+ from Fox Software. Why? The program runs much faster in FoxBase.



Naturally, Fox Software President David Fulton takes a different view. He contends that Ashton-Tate lured other companies into investing their efforts in programs that build on what Ashton-Tate started: compilers and interpreters (software that translates user words into machine instructions) and applications. Now that the personal computer world is hooked—Ashton-Tate has some 60% of the market for personal computer database software—Ashton-Tate wants to change the rules.

Ashton-Tate President Edward Esber replies simply that his company spent millions creating dBase and should own it. "With major advances in the law, there will have to be some short-term dislocations for users," says Esber.

What worries many users and software developers is that companies like Lotus and Ashton-Tate are using lawsuits to replace innovation as a competitive weapon—or at least as a stopgap measure until they can get their new products into the marketplace. For example, Lotus' latest version of 1-2-3 is more than a year late. Ashton-Tate's new dBase IV, released late last year, was at least two years late and still has serious flaws.

Where in all this arguing does the public interest lie? In encouraging innovation and creativity, of course. Too powerful protection of software can also foster plainly anticompetitive market practices. Nintendo, the Japanese electronics company, has captured a roughly 80% share of the market for videogame players. No one begrudges it that. But it may now be using intellectual property law to unfairly control the separate market for the replaceable game cartridges that go in the player. In court, Nintendo is arguing that Atari Games Corp., a rival cartridge manufacturer, violated its patent by reverse-engineering a chip that is necessary to make the game software play in a Nintendo player. Says Atari Games general counsel Dennis Wood, "It's like saying if I buy my car from Ford, I also have to buy my gas from Ford. That's ridiculous."

The U.S. needs a powerful software industry, one that can continue to beat the Japanese and create export earnings. (Overseas sales by U.S. software makers were some $11 billion in 1988, and are growing at better than 20% a year.) The system must reward

innovators but promote a rapid evolution of their product lines.

Is there a way to protect innovators without strangling further innovation? Congress could create a separate protection system for software, taking elements from both patent and copyright law. To foster innovation, such a system would specifically prevent copying of codes but permit imitation of results, including looks and feels and languages. The period of protection would be shorter, say ten years. In the quickly moving science of software, that would still leave the originator of a language with a valuable lead of several years over its rivals. It would, to fall back upon the automotive analogy, let inventors patent gear arrangements but not the idea of having a car with a stick shift. ■

Random Access

Commentary by Esther Dyson

COMPUTERS PROGRAMMING COMPUTERS

For New Year's, you resolved to exercise regularly, count to ten before losing your temper, and take a serious look at computer-aided software engineering (CASE). Have you been keeping all your resolutions? If not, you can join the crowd. People shy away from CASE even though they know it's good for them.

Like other disciplines, CASE demands a sacrifice up front—a learning and adjusting process—before the benefits arrive. Those benefits are clear and simple to understand: CASE makes it easier and faster to build software, and makes the programs that result higher in quality, more consistent, and easier to change later on (from paying people every two weeks to twice monthly, for example).

So why don't people do it? Because it's difficult to change habits. Programmers get fixed in their ways. If they write a program with the help of another program, the work may go faster but the resulting code doesn't come out looking just the way they'd do it on their own. And they have an excuse: There are too many products on the market, and most customers want to wait until things shake out and the right choice is clear.

Howard Arnold is president of Sage Federal Systems, a Rockville, Md. company that has made a business out of market confusion by understanding all these tools and using them to develop software. The central fact about computer-aided software engineering, he says, is that it's not a quick fix. The tools have to be used regularly and consistently to pay off, because the benefits in large part lie in the consistency of the results. Like weight or temper control, CASE is really a way of life.

Esther Dyson is editor and publisher of the newsletter Release 1.0.

But the resistance is more than just personal habit. There's politics, too: Middle managers don't want to adopt CASE on the broad scale that's necessary for benefits because they would lose control to a central corporate authority. Top management doesn't want to adopt CASE wholesale because it's risky, and who wants risk? Besides, top managers may not trust their own data processing people to use it right.

What will shake companies out of this lethargy? Seeing their competitors get ahead by using the new technology effectively. Helping a few early adopters (or customers with problems so great they're willing to take the risk) is the job of Howard Arnold's company. A professional services firm carved out of CASE vendor Sage Software just before the latter went public, Sage Federal isn't wedded to tools sold by its former parent. It uses not only products from Sage Software but also Excelerator from Index Technology and Recoder from Language Technology.

Sage Federal, privately held with revenues last year over $20 million, has overcome the natural resistance to CASE technology that infects its customers. Its tools (and its 200 people trained to use them) allow it to build prototype systems quickly, so that clients can get early feedback that something is happening and make sure it's the right thing: Customers frequently don't correctly specify what they want at first.

Keeping the customer's mind focused is a big part of a programmer's job. He may hear, halfway through an inventory accounting project: "Come to think of it, we have to have the unit prices for the videos in both dollars and yen." It is a universal gripe of programmers that they are aiming at a moving target.

From the prototype, Sage develops a finished system using a standard methodology and assembly-line quality controls that guarantee the finished system will match the prototype.

It all sounds so easy. Why can't everyone do it?

In fact, a lot of people are starting to do it, and it will just take a number of success stories to speed up the process. Traditional software development houses have quietly been using CASE all along (without necessarily touting its benefits to competitors or customers paying full price), and the practice is starting to spread. In particular, many management consulting firms—notably Index Group, Booz, Allen and Arthur D. Little, and accounting firms such as Arthur Andersen, Peat Marwick, Coopers & Lybrand and Price Waterhouse—are doing systems development for customers and starting to use CASE tools to do so. Arthur Andersen, for example, used its own CASE tool, Foundation, in building a multimillion-dollar materials management system for Nynex.

Meanwhile the widespread adoption of CASE could have an interesting effect on the balance of power between software specialists and management consultants. The more automatic the development process, the more the value-added shifts toward consulting rather than development skills—if the consultants can use the tools properly. The tools make the coding automatic, but there are no tools yet to automate the understanding of business problems that the consulting firms bring to the party. ■

Cellular phones are terrific—until you drive into a tunnel or hear strange voices on your line. This barrier to cellular transmission is about to be reduced.

"Gotta go, I'm heading into the canyon"

By Gary Slutsker

DO YOU LOVE-HATE your car phone? In cities like New York and Los Angeles, astonishing growth in subscribers has left cellular phone systems straining to handle all the traffic. Thus chances are very good your car fax will spontaneously disconnect at Broad and Wall streets in the heart of New York's financial district—just as surely as you'll lose contact with the world when you enter one of the canyons around San Diego.

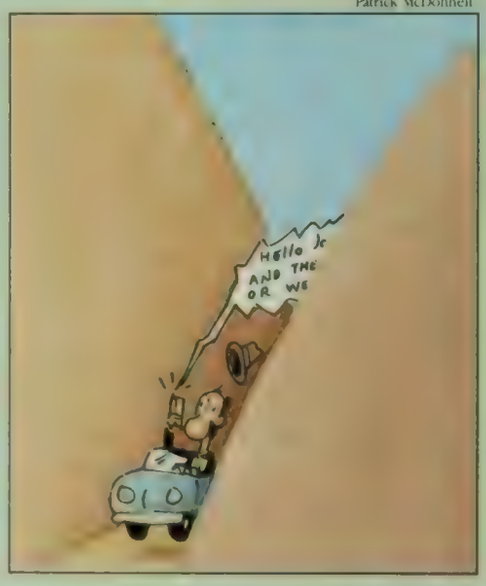
And security? Until laws against eavesdropping were passed in 1986, Radio Shack and numerous others sold scanners with cellular phone channels, like the ones city editors once used to monitor police band transmissions. These scanners—plus newer ones from other sources—have made eavesdropping on limousine conversations a high sport. "I tell the owner of the New York Mets, 'Never discuss the Darryl Strawberry deal on your car phone,' " says Charles Many, president of Nynex Mobile Communications. "You never know who else is listening."

Blistering growth is taking place in the cellular business—as of last June, there were 1.6 million cellular subscribers in the country, double the number of a year earlier—but this growth is a mixed blessing for cellular operators in crowded markets. They are working feverishly to solve their technical problems, which range from capacity constraints and bad reception to eavesdroppers.

Some problems, like interference, are solvable with money and new ideas. For example, PacTel has extended coverage into the remote Laguna Canyon in Laguna Beach, Calif. by using a solar cell to power a repeater signal. To carry calls through the three-quarter-mile-long Caldecotte Tunnel from Oakland to Walnut Creek, PacTel blasts signals from antennas installed at either end. A "leaky" coaxial cable that acts as an antenna will be used as a model for expanding underground, from subways to parking garages.

The big problem in Los Angeles now and elsewhere in the future will be adding subscribers to jammed cellular systems. Unlike the wired telephone companies, the cellular operator can't just string another line out to the customer. The airwaves are cramped. The Federal Communications Commission has allocated only 437 channels of radio waves to each carrier. When those frequencies get used up, the carrier has to get creative.

Patrick McDonnell



How can you add customers without getting new frequencies from the FCC? Until recently, the favored solution has been to keep subdividing a system's honeycomb-like cells. Each cell has a low-power radio antenna that sends out and receives signals to and from mobile phones within the cell's boundaries. When a car leaves one cell its signal is automatically handed off to the next cell, which assigns the call to a new frequency. The trick is to get new capacity by reusing frequencies in nonadjacent cells while avoiding interference.

Thus, in Los Angeles, the nation's densest cellular phone market, the cell has shrunk to cover a single intersection. The smallest cell operated by PacTel Cellular has a radius of merely 3,000 feet—just large enough to cover a chunk of the Santa Monica freeway. At rush hour the freeway traffic averages less than 20mph. The only thing to do is talk.

Where does PacTel go from here? "We've pretty well stretched the current technology about as far as it will go," says James Proffitt, director of network projects at PacTel Cellular. "To build smaller cells, we need new techniques to confine the signal to smaller areas. We're experimenting."

A solution to all these problems beckons. Out yonder on the horizon is a new technology called digital cellular that holds the promise of a better world for all of us—one in which ordinary radio interference is virtually eliminated, in which conversations are private, and in which data from laptop computers can be safely and inexpensively transmitted to the home office from a car or delivery van.

The Cellular Telecommunication Industry Association and the Telecommunications Industry Association agreed in January on a way to triple instantly the capacity of an cellular system. By the time a full standard is agreed to—possibly as soon as the end of this year—the cellular capacity could grow tenfold.

Of course, it is already possible—in fact, quite convenient—to transmit data over a cellular phone, albeit at the leisurely rate of 1,200 bits per second. But it's terribly expensive, at about 25 words a second. In digital cellular, that figure will at least double, cutting the cost in half.

Because of the cost and unreliability, data as opposed to voice transmission now account for at most only a few percentage points of cellular traffic, but that will surely change. In an experimental program, Nynex employees helped a New Jersey ambulance crew send electrocardiograph on a heart attack victim over a cellular phone to Holy Name Hospital.

Assembly Systems That Make Money.

Assembly is the most difficult of all manufacturing processes to automate. Successful implementation of automatic assembly involves not only the use of existing and emerging technology, the tools of automation, but also a sympathy for the available human resources, the parts variations and maintenance skills found on the factory floor.

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ASSEMBLY SYSTEMS

***The* Name in Successful Assembly.**

Comp/Comm

Even in advance of cheaper and more reliable service, Spectrum Cellular Corp. of Dallas is selling the LapPak portable office system—cellular phone, laptop and cellular modem—for $4,950. You need a special modem to recognize when it's being handed off to a new cell and frequency so that it can retransmit data lost during the split-second hand-off; a buffering device will still be required for digital transmission.

How will the coming digital transmission improve cellular reception? By facilitating error detection and error-correcting mechanisms. Unlike analog signals, digital signals are easy to distinguish from background noise and can be reconstructed.

The big telecommunications manufacturers, including AT&T, Motorola, Northern Telecom and Ericsson, expect to sell digital car phones. Before they can, they must agree on industry-wide standards. So far, they have taken a big step in this direction by selecting "time division multiple access" as the way to squeeze signals from several phones into one cell over one frequency. This is a time-sharing scheme that takes advantage of the fact that one channel can deliver about 48,000 bits of data per second while each phone conversation can be accurately rendered with only some 16,000 bits per second.

High-powered digital communication chips, of the sort that would have been prohibitively expensive a decade ago, are necessary to this operation. They have to freeze-frame a voice several thousand times a second, possibly encrypt the resulting data to foil the eavesdroppers, transmit the data in bursts, and undo all this at the other end to reconstruct the sounds. Details are yet to be worked out.

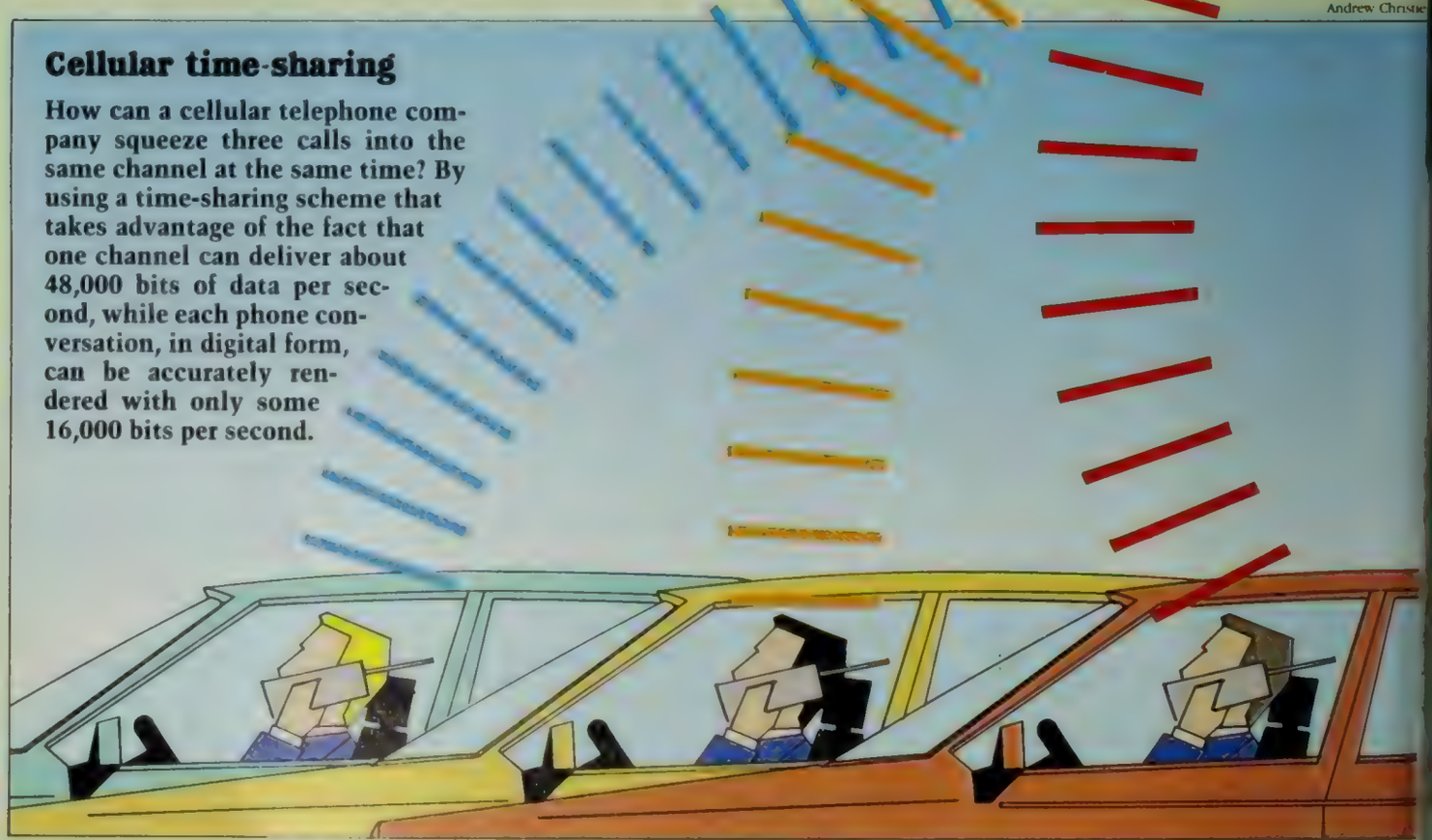
Does all this mean you shouldn't buy an analog cellular phone today? No. The switchover to digital cellular will take place gradually and will operate in tandem with the existing analog system. After that, you may be able to switch to digital by retrofitting. That convenience will come at a great capital cost to the cellular operators, who find themselves in the awkward position of having to replace most of their five-year-old transmission gear simply to stay in business.

Will this new cellular capacity put the telephone companies out of business? Not likely. Conservative people in the cellular business say that their market is the mobile communications market—to and from moving people and vehicles, not from stationary ones, which will still be served via wire and fiber optics. Even as the cellular industry expands its capacity by a factor of 10, it is only handling a very small fraction of all phone communications—probably less than 2%. In the meantime, the telephone companies are busily expanding their networks to handle increased capacity for transmitting voice, data and video signals.

"Is cellular competitive with landline phones? Yes and no," says Eric Buck, vice president at Donaldson, Lufkin & Jenrette in New York. "Cellular won't likely be competitive in regular residential phone service. But in some rural areas, it is cheaper to put in cellular radios than to lay 40 miles of cable or fiber."

Buck continues: "Someday the phone system will put a million bits a second of capacity on every desk. You could never generate that kind of capacity on a radio-based system."

So the Bell companies aren't going out of business, and much of the cellular traffic growth will go to markets out of reach of wired systems and not currently well served. So, don't rush to sell your Bell stocks, but rejoice that things are looking up for cellular operators and rush-hour commuters on the Santa Monica freeway. ■

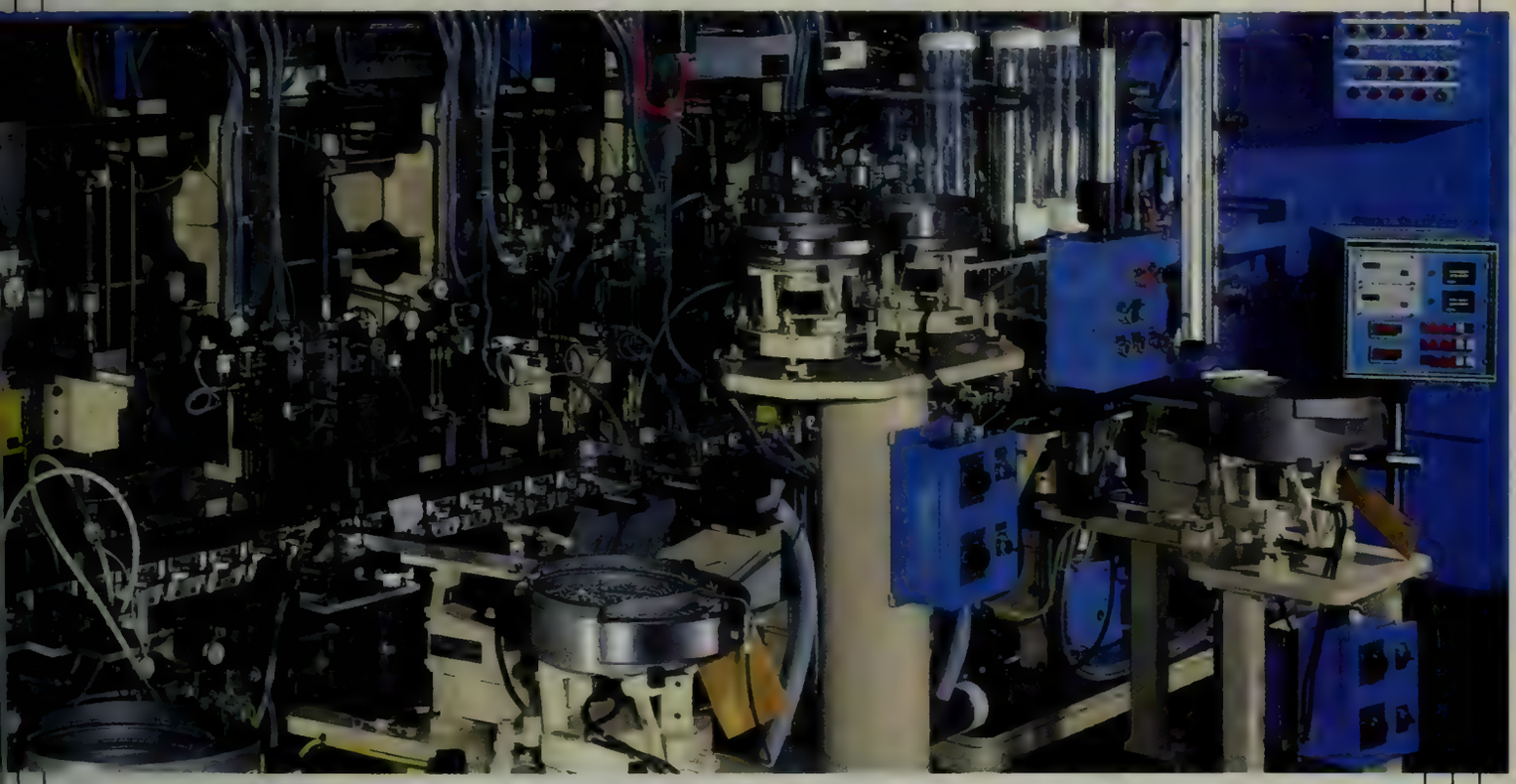


Andrew Christie

Cellular time-sharing

How can a cellular telephone company squeeze three calls into the same channel at the same time? By using a time-sharing scheme that takes advantage of the fact that one channel can deliver about 48,000 bits of data per second, while each phone conversation, in digital form, can be accurately rendered with only some 16,000 bits per second.

Bodine Assembly Systems — Experience in Applying New Technology



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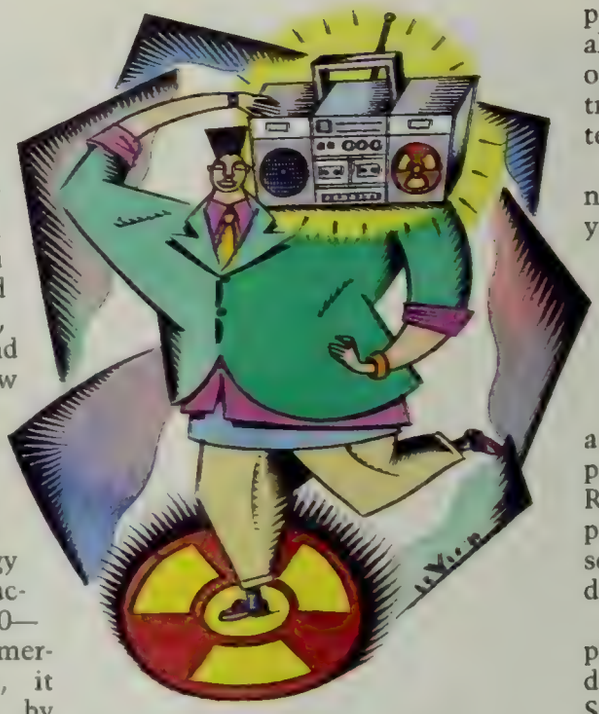
Edited by Gary Slutsker

Beware of brokers pushing hot technology stocks—particularly if the inventor can't seem to get his invention to work.

Soup-can physics



By Claire Poole

LAST YEAR Paul M. Brown, a little-known inventor and college dropout in Boise, Idaho, had both *Business Week* and *Fortune* purring over his hot new creation—a nuclear battery the size of a waste basket that could power several homes. Brown's claim—that he could harness electricity directly from the spontaneous emission of high-energy alpha and beta particles in radioactive material like strontium 90—sent the mind reeling at the commercial possibilities. Before long, it seemed that batteries made by Brown's company, Nucell, would be using radioactive waste to power everything from laptop computers and boom-box stereos to down-hole oil drilling gear and artificial hearts.

Nuclear batteries? Actually, Brown's idea is a new take on an old idea. The first nuclear batteries—technically called radioisotopic thermoelectric generators—were patented in the mid-1950s by scientists at defense contractor Monsanto in Miamisburg, Ohio. Those batteries work by using the natural decay of the radioactive material to produce heat, which is then fed through a thermoelectric generator to produce a current. Such batteries are now used mostly in remote places to power communications devices underwater, sensors along Israel's desert borders and instruments on space vehicles like the Viking spacecraft on Mars.

But these batteries are inefficient—roughly 90% of the energy produced by the radioactivity is wasted.

Brown says his battery is much more efficient—and lasts up to 20 years. He claims that one of his prototypes, the size of a Campbell Soup can, could produce 75 watts of alternating current for about 10 years. How does this thing work? The explanation requires some technical mumbo jumbo. Brown talks about converting the magnetic energy of the alpha and beta particles directly into electricity—without generating heat. This is done by attaching an electrically charged copper wire to the radioactive source. The alpha and beta particles from the source knock electrons free from the copper wire, creating a current.

To put it mildly, some nuclear physicists are skeptical. "You can't get more power out than is there," says Ewart Blackmore, a nuclear physicist with Triumf, a Canadian national research laboratory in Vancouver, who was asked to check out the battery for a mining company that Nucell had approached for financing. Brown says he uses 1.5 curies of strontium 90 to produce 75 watts of electricity, a curie being a measure of radioactive power. But most physics texts say it takes 11,100 curies to produce 75 watts, after the loss of 90% of the energy as heat.

Not only did Brown's explanation sound fishy, but Blackmore never got to see the battery. He was told the device had to be dismantled for security reasons, and he was denied access to the laboratory.

Moreover, Brown says his battery is extremely safe—safe enough to be implanted, on a smaller scale, in cardiac patients to power artificial hearts. To protect consumers from radiation, aluminum foil roughly the thickness of a finger nail is enough to do the trick. The battery is enclosed in quarter-inch-thick stainless steel.

Does the idea of carrying around a nuclear battery inside your body give you the jitters? Back in the 1960s, Thermo Electron Corp., a Waltham, Mass. high-tech outfit, developed an artificial heart pump using plutonium capsules as an energy source. But concern over the capsules' being punctured by a bullet or a steering wheel column led the company to abandon the project. Says Robert Howard, an executive vice president: "It was unthinkable having someone walking around with a radioactive source in his body."

Not surprisingly, some nuclear physicists aren't the only folks who don't believe Brown. Last year, the State of Idaho accused Brown of lying about his education, specifically about having attended the University of California at Berkeley. Brown and his partner Bert Mitchell admitted they offered unregistered securities without a license and agreed to pay any investor claims that may arise.

Incredibly, none of this has stopped investors from lapping up shares of Nucell's publicly traded parent company, Peripheral Systems (1988 sales $2 million). While Peripheral is also developing high-intensity lighting equipment, it has spent most of its time and money—nearly $1 million over the last two years—on the nuclear battery. All the hype attending Brown has helped push the stock up from around $2 before Peripheral purchased its 51% interest in Nucell to a recent $6—in spite of heavy losses.

Says Brown about all the controversy: "History is full of skeptics." Investors in deals like this one can never be skeptical enough. ■

Simulated TV picture

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Marketing

Edited by Jeffrey A. Trachtenberg

Cable operators once worried mainly about installation costs. Now they worry a lot more about marketing.

New customers at $50 a head, not $2,500

THE DAYS WHEN CABLE television was dominated by engineers concerned only with installation costs and the latest street-digging technology are over. Cable systems are among the hottest media properties these days. Last year systems valued at $14 billion changed hands or were put up for sale; that's four times the $3.5 billion worth of television stations that were sold. In the first four weeks of 1989, another $3 billion to $4 billion worth of cable systems, about $1,950 per customer, were put on the block.

"The only way these deals make sense," says John Waller III, who brokered systems valued at $1.7 billion in 1988, "is by increasing ad revenues, adding new customers or selling existing customers more services. Traditionally cable operators have been terrible marketers. They'll have to improve."

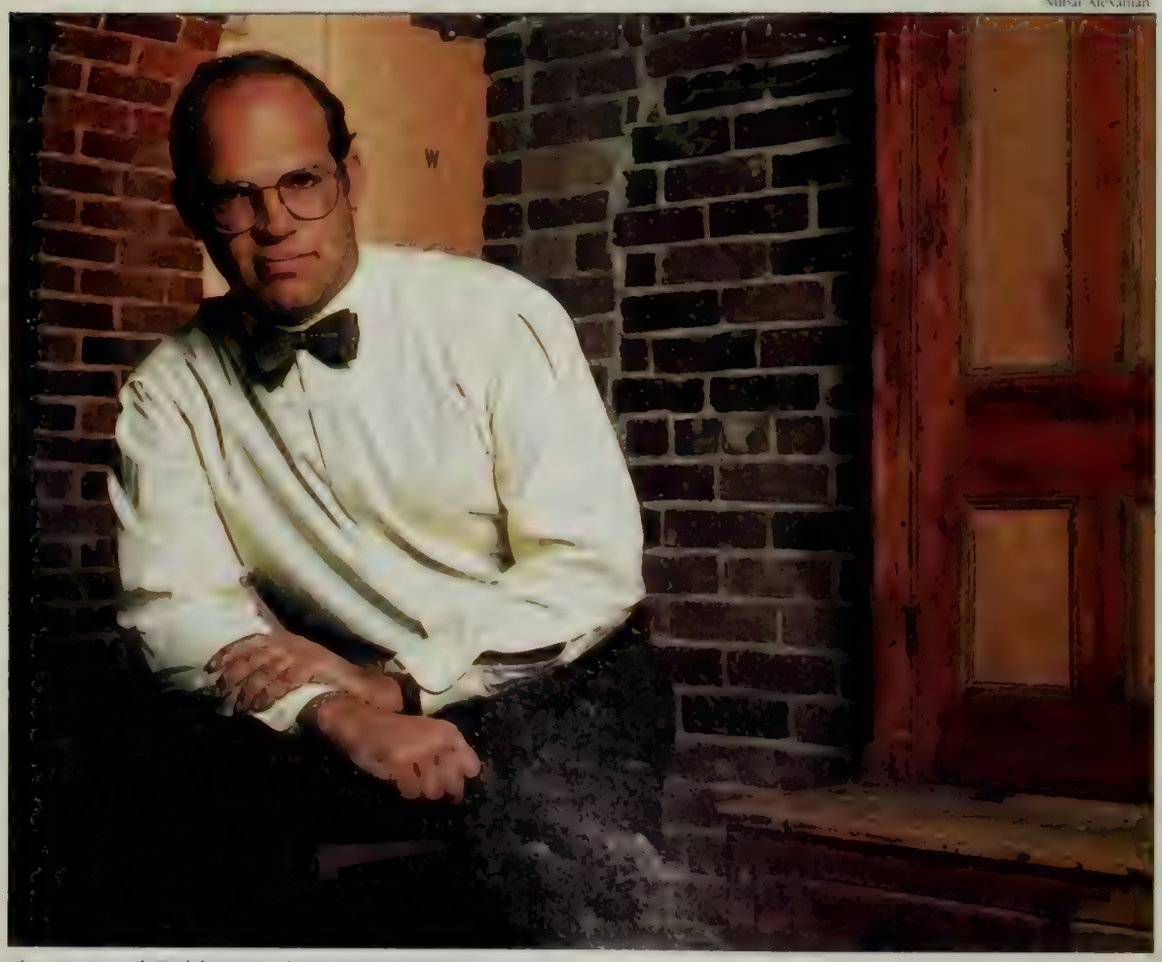
Which is one reason a lot of them are watching how Boston's Continental Cablevision does it. Continental, with 2.35 million subscribers and $600 million in revenues, is only the country's third-largest operator, but as far as marketing savvy goes, Continental, right now, is the best in the business.

By what measure? By every measure the pros use to keep score. Continental, for example, sells more premium services (HBO, Showtime, the hookups that cost subscribers a fee in addition to the basic service) per customer than any other of the ten largest operators. Its 2.35 million subscribers take 2.6 million of these "pay units," as they are called in the industry, a "pay-to-basic" service ratio of 110%, in an industry that still averages 80%. It achieves that high ratio by convincing fully 60% of its customers to take at least one premium service, while the industry averages 40%. Continental's customers tend to be satisfied, too. Only 2.2% disconnect each month, compared to an industry norm of 3%.

"They know it makes more sense to spend $50 to get a new subscriber through marketing than $2,500 through acquisition," says Matthew Blank, executive vice president of marketing at Showtime, the country's second-largest pay TV service, with 6.9 million subscribers.

Continental, of course, picks up new customers the old-fashioned way as well. It buys them. Last year, for example, the company paid $485 million to acquire American Cablesystems, a small but highly regarded company based in Beverly, Mass. That comes to an estimated $2,100 a subscriber.

Nubar Alexanian



Continental Cablevision's Ted Livingston
Stressing quality, not quantity.

How does Continental expect to make it pay? "Better marketing," says Ted Livingston, senior vice president. "American had just acquired a number of poorly run systems in Los Angeles. Of 900,000 potential customers, only 165,000 had signed up, in part because not all the homes were wired. We intend to get that number up to 500,000." The stakes are enormous. If Livingston succeeds, Continental stands to gain an additional $100 million a year. Do the math: 335,000 new subscribers paying an average monthly bill of $25, 12 times a year.

And yet there's nothing fancy about how Continental markets itself. Most effective is door-to-door selling, which runs as much as $40 per subscriber. Continental does a lot of cold calling (what the pros call telemarketing) too, at $10 to $25 per customer. But that is a less efficient way of recruiting new subscribers and works far better at getting existing subscribers to sign up for additional services. Finally there is direct mail, most of which is sent third class. Those costs, some of which are shared by the pay TV services, average $10 to $20 per subscriber.

"People who take cable do so for many reasons," says Livingston. "Mostly they want choice, which has always been the way cable TV was sold. Now we're trying to sell the customers who have already shown they aren't interested. How? By stressing quality, not quantity. For example, we tell them that if they love fishing they can get more fishing shows on ESPN. Or if they want the best news coverage they need CNN or C-Span. Door-to-door selling gives you a chance to probe their likes."

Promotional pricing helps, too. A typical Continental pitch offers a special connection rate plus free initial HBO/Cinemax connections. One direct mailing last year in Springfield, Mass. and its suburbs, for example, offered a standard $24.95 hookup for $4.95. Result: 5,054 new subscribers.

These days, though, perhaps the most powerful marketing tool for cable operators is also the most ironic. In cahoots with HBO and the other premium services, they are buying time on network affiliates to push cable services. Ironic, of course, because cable and the movie channels it offers are exactly what is grabbing viewers away from the generally dreary network programs each evening. "Why broadcast TV commercials? Because television does the best job of selling television," says Livingston.—J.A.T.

Goldblatt's Department Stores was just another old-line Chicago retailer that went bad. Then a tough old merchant took the stores back to their roots.

Poor customers, rich profits

By Steve Weiner

CHICAGO's 26th Street isn't the place most people would pick for a retailing revival. The down-at-the-heels neighborhood, just down the street from the Cook County jail, is heavily populated with low-income Mexicans. Buildings are smeared with gang graffiti; screw-top wine bottles, rusted car parts and other garbage litter the alleys.

A tough urban backwater, yes, but to William Hellman in 1981, a good match and golden opportunity for his bankrupt Goldblatt's Department Stores. If neighborhood families needed anything, he reasoned, it was a nearby place to shop for inexpensive necessities—items such as winter coats for $40, flatware at three pieces for 99 cents, waitress uniforms for $1, and small but serviceable desks for $19.99.

Richard Derk

Goldblatt's William Hellman
"With our customer, price is paramount."

Richard Derk

Inside a Goldblatt's store in Chicago
From castoffs, a $50 million business.

He was right. From such castoffs of mainstream retailing has come a $50 million business that produced a 20% gain in profits, to about $4 million, in the year ended Jan. 31. Goldblatt's reopened in March 1982 with six inner-city stores. It has since added stores near blue-collar Gary and South Bend, Ind., as well as two in low-income Chicago neighborhoods. Yet another store is planned for Homewood, a middle-class Chicago suburb. It will stock slightly better merchandise, including brands such as Manhattan shirts.

"With our customer, price is paramount—we're the poor man's Marshall's," says Hellman, 68, a gruff survivor of several big retail chains who started as a Goldblatt's stockboy in 1936. "We call ourselves the 'Incredible Bargain Store,' and to be that, we are opportunistic. The merchandise has to be in and out of the store in 30 days."

Or much less, depending on the opportunity. When Bloomingdale's abruptly changed the packaging on its men's underwear, for example, the manufacturer shipped 24,000 briefs and T shirts in the old packages to Goldblatt's, where they sold quickly at $2.99, a full $10 off the department store price. A few hundred irregular Neiman Marcus women's sweaters "walked out of the store in an hour," recalls Lionel Goldblatt, 59, son of a cofounder; he does double duty as chairman and merchandise manager for clothing and other soft goods. Goldblatt's sold them for $12.99, compared with $79 at Neiman.

Goldblatt's succeeds on more than just low prices. Its advertising, merchandising, utilitarian decor and promotional plan are all aimed at attracting the poor; if the furnishings were too fancy, for example, customers might think they couldn't afford to shop there. "The prices are right, and everything I buy is satisfactory," says Eugene Ziarko, a retiree, as he selects a $14.99 dresser lamp, its green shade stamped with the name of a famous cognac. "Most stores don't think about people like us," he says.

Goldblatt's always did. Founded as a general merchandise outlet for West Side Chicago immigrants in 1914, it prospered for decades as a promotional department store under brothers Nathan and Maurice Goldblatt—themselves Polish immigrants. Its appeal diminished as the stores spread outside the city. Family bickering and a strategic shift toward more expensive merchandise led to its slow demise during the 1970s.

By 1980 Goldblatt's operated about 40 stores generating sales of more than $300 million—and losses of more than $6.5 million a year. The company went into Chapter 11 in June 1981. Only the help of Chicago developer Jerrold Wexler and his Jupiter Industries permitted the company to reopen. Jupiter holds a controlling 46% interest in the new JG Industries, which operates furniture and shoe stores as well as Goldblatt's.

Hellman, who returned in 1981 after 22 years away from Goldblatt's, figured the single hope was to return to the chain's immigrant heritage. "The only difference between today and back then was that blacks and Hispanics have replaced the Poles and Bohemians we sold to before," he says. He picked for survival six stores that had always done well with the old, low-price Goldblatt's style, reconfigured them from four or five floors to two and stocked them with goods most retailers didn't want.

Goldblatt's favors bright colors because its customers do; the poorer, the brighter. And it will take very small quantities, sometimes buying boxes of discontinued or liquidation merchandise sight unseen. The company, for instance, has sold thousands of garish women's tops, black with gaudy sequins sewn in the shape of a butterfly. "Most people wouldn't wear that for Halloween," says Goldblatt. He displays a screechy blue plaid sports shirt. "We can't sell it in Gary; the customers there say it's boring," he says.

The store is careful to schedule promotions to coincide with its customers' cash flow. That is generally on the first of the month, when customers often receive welfare, unemployment and Social Security checks. Goldblatt's delivers its monthly advertising circulars directly to neighborhood doorsteps; for big sales, it also stuffs them in blue-collar newspapers, such as the *Chicago Sun-Times* and the *Gary Post-Tribune*. Invariably, they promise incredible bargains: motor oil at two quarts for 98 cents; men's dress shirts for $4.99.

Which also allows Goldblatt's to maintain a no-fuss return policy. "Why should we alienate a customer over something that cost us $1.99?" asks Clarence Farrar, a senior vice president. And the chain goes out of its way to make customers feel comfortable shopping. Most stores feature pinball machines and snack foods, and they hire neighborhood people. "Downtown it's always English, but here they speak my language," says Maria Cintora, from Mexico, as she shops at 26th Street.

But speaking the language also means understanding how customers live. Goldblatt's is heavily stocked with space heaters because many apartments in its neighborhoods lack adequate heating. Because most customers walk to the store, it sells hundreds of wheeled wire carts each year.

Nothing fancy here. Just retailing basics—location, price and knowing the customer. ■

For Bill Demby, the difference means getting another shot.

n Bill Demby was in Vietnam, he to dream of coming home and play- little basketball with the guys. \ dream that all but died when he lost his legs to a Viet Cong rocket.

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REG U S PAT & TM OFF

Personal Affairs

Edited by William G. Flanagan

Folks who lease cars reason this way: With milk by the quart so cheap, why buy the cow? They may have a point.

When the payments never stop

By Jerry Flint

At your next dinner party, drop this bomb: "I'm going to lease my next car. It makes more sense than buying." Watch the fur fly.

Critics will carp that leasing leaves you in never-never land. You never stop paying because you never own, and you're never quite sure exactly what the deal costs, given the voodoo economics of leasing.

One demon, for example, is opportunity cost—the interest you might earn on the money you don't have to tie up in a down payment. On a five-year lease, say, the $5,000 you don't put down could earn you another $2,693, invested at 9% over five years. You are supposed to calculate that as a saving. But let's be realistic. A lot of people lease because they lack the down payment or want to use that money elsewhere.

Still, fans of leasing are right when they brag that their monthly payments are lower. (Or, for the same money you would pay monthly to finance a car purchase, you could lease a more expensive set of wheels.)

Both camps will cite personal examples. Consider the case of the Jacksons.

Two years ago David, 27, a magazine sales rep living in New Jersey, leased a Toyota Celica GT sports coupe. "If I didn't put any money down, it would have cost me more than $400 a month. To lease, they said $240 a month [it turned out to be $272 a month for four years, when the smoke cleared]. It's worked out pretty well. With a $400 payment, I couldn't have moved out of my parents' house and into my own place."

David Jackson's sister, Pamela, 30, who also lives in New Jersey, has a different story. "I probably had a sign on my face that said 'Sucker,'" she says of her five-year, $211-a-month lease for a Toyota Corolla SR5. "I'm trying to find a way to break the lease. But if I relinquish early, I have to pay them $3,300. If I want to upgrade, they penalize me. I got the car thinking I had full maintenance. I thought they said the only thing not covered was belts and tires. Ha! Was I wrong."

And so the arguments go. What's certain is that the leasing of personal cars keeps growing—475,000 five years ago, about 900,000 last year.

Does it cost more to lease than to buy? It should come as no surprise that the answer is yes—but not by much. For cars in the $30,000 class, it may cost $2,500 to $4,000 more over four years. On a $20,000 car, make that $1,500 to $2,500. Considering the advantages, leasing is a reasonable option for people who trade cars often, every three years or less, or who want more car than they would be willing to buy. (About 22% of all new BMWs are leased. About 35% of new Mercedes in major metropolitan areas on the East and West coasts are also leased.)

Peter Sis

If you decide to go the leasing route, however, consider more than the advertised monthly fee, just as you would think about a lot more than sticker price when buying a car. A fast-pencil salesman can do you in either way.

Here are some other important things to consider about leasing.

- Most leases are closed end; that is, the leasing company determines a fixed price for the residual value of the car at the end of the lease. Make sure your lease specifies that amount. It is usually 30% to 40% of the sticker price after four years. Get an option to buy at a specific price. Never mind vague promises like "fair market value."
- Beware of artificially low payments; there may

be balloons. Warns Mark Schienberg, executive vice president of the Greater New York Automobile Dealers Association, "You see these leasing terms, $99 for first 6 to 12 months, then a big blowout payment, $10,000, then $200 a month right after that. It's becoming more and more 'creative.' "

So read the small print. For example, Cadillac had been advertising its new lease program: $374 a month ($17,952 in 48 months) for an Eldorado with a $29,150 sticker. Quite a deal. But the small print at the bottom discloses that to get the $374-a-month deal, you have to put up an extra $2,915 (euphemistically dubbed a "nonrefundable capitalized cost reduction"). Without that 10% down, the Eldorado would lease for $542 a month for four years ($26,016). All of this is not to single out Cadillac's deal. Virtually all lease programs have options that can greatly affect your net cost.

- Steep penalties for giving up a lease before its due date are standard. You may tire of the car, or repair bills may start to mount. Whatever the reason, those penalties will be a major disadvantage if you decide to pack the car in early. And if the car is in bad shape when you turn it in, you will be charged for repairs.
- Insurance typically covers the value of the car, not your lease payments. So if you have a bad accident or your car is stolen, you could find yourself owing more on the lease than the insurer pays the leasing company for the car. "If the car is totaled, especially in the first year, there's not enough money in the cash value settlement to cover the cost of the lease," says Richard Robertson, property claim manager for Michigan's AAA, the state's largest car insurer. So insure to cover the lease, not only the car.
- With so much emphasis on the monthly payment, you might assume there is nothing else to bargain for in a lease. Nonsense. It's not unusual to find "fees" tacked on—service fees for filling out the forms, termination or disposition fees for selling the car, exaggerated title and registration fees. These are the equivalent of the $100 floor mats and $500 wax jobs dealers put in cars to push up the profits. Saying no and shopping around might shake off some of them.
- You can load up the car with options, but that will affect your monthly payments. Bill Nerenberg, executive director of the National Vehicle Leasing Association, for example, leases an "Arrest Me Red" Chrysler convertible, with all the bells and whistles, for $400 a month. "I'm not after the lowest payment. I'm a service man. They send a runner over to come pick up my car when it needs work." Leases may be written to include auto club membership, loaners during service, or even offer referral fees for new customers.
- Mileage can wreck the economics of the whole deal. Leases usually have a mileage limit, say 15,000 miles a year, and extra miles cost 8 to 10 cents a mile. But read the lease; it may be more. And you can negotiate the fee.
- Never turn the leased car over to a third party. "We're talking about a scam," says Nerenberg. "These guys say, 'Are your payments too high? Did you lose your job? Need to get out of that heavy lease payment? Bring us a car and we'll find a customer for you. You're off the hook.' You're not off the hook, because the contract prevents any sublease without approval. Your name is still on the contract." In the end, too many such subleased cars wind up in chop shops, says Nerenberg. In fact, subleasing is a felony in Georgia, Florida, Colorado and California, and a misdemeanor in Arizona.

So, is leasing for you? "It's really hard to tell if you made the right decision, and I'm a guy who should know," says Schienberg. He finally decided to lease a Mazda RX-7 convertible with the leather interior and speakers in the headrests, at $388 a month for five years. "My accountant says his philosophy is: 'If something depreciates, lease; if it appreciates, buy.' " Your friends, your spouse and your kids could have different opinions. You'll doubtless hear them all at that dinner party.

Helping time fly

John Cole/Impact

Private video screens in British Airways' first-class section
Choices will include first-run movies as well as some classics.

Airlines have yet to invent a better passenger pacifier than in-flight movies. For frequent travelers, though, the films are usually less of a thrill—too often they're the likes of *Crocodile Dundee II* both coming and going. Now British Airways has come up with a new twist: at-your-seat video players that give you a choice of what to watch and when to watch it. The U.K. airline's new menu offers 50 choices, including *Perry Mason, Casablanca* and *Carmen*, as well as an assortment of recent Hollywood hits.

So far the perk is for first class only. The airline has installed video equipment in the front cabins of four 747 jumbo jets for a six-month tryout period on long-haul routes, including flights to most of its North American destinations.

Power-supply requirements and equipment-certification rules make installation more complicated than just opening a box from Sony. The players rest in the unused area between first-class seat armrests. After takeoff, you reach under the armrest and pull out an individual 4-inch screen that tilts and swivels for viewing whether you are sitting up or reclining. The screen produces a clear color picture, using the same liquid-crystal technology as pocket-size tele-

visions. You press play, stop, fast-forward and rewind, just like on a home video recorder.

Some carriers, including British Airways, Singapore Airlines, Northwest Airlines and Australia's Qantas, are also exploring improved in-flight entertainment for the back of the plane. Individual video players in economy, with hundreds of seats, would be a logistical nightmare, so the airlines have tested systems that feed six channels in a continuous loop similar to the audio channels already common on jumbo jets. These systems use smaller screens set in the back of each seat, just above the place where the meal trays are stowed. With seats that recline nearly flat, though, the first-class seat back may not offer good viewing angles.

British Airways spent the last year quietly working on its alternative with two suppliers, Avicom Inc., a Pasadena, Calif.-based unit of Lockheed Corp., and Fieldtech Heathrow Ltd., a unit of Britain's Hunting Group Plc.

British Airways sees better in-flight entertainment as a way to distinguish its revamped first-class service—maybe helping justify the steep markup over business class. Says Michael Batt, British Airways' head of products and brands: "The key need that separates first-class passengers is that they need to be in control."

British Airways has scored a first, but its suppliers are now free to peddle the gear to other carriers. Neither supplier will disclose the cost of the prototype systems, but one hints at an eventual target of about $1,750 a seat.

The suppliers and the airlines are proceeding carefully in part because of the dangers of theft. Crew training stresses the importance of getting back every tape handed out. In many parts of the world tapes of recent movies—even *Crocodile Dundee II*—are hot commodities.—**John Marcom Jr.**

Loose ends

Learning a language in a hurry is practically an oxymoron. But the Michel Thomas Language Centers promise just that. Thomas classes in French, Spanish, German and Italian do not rely on rote learning, memorization drill, textbooks or even homework. At the centers in Beverly Hills and New York, students spend a minimum of ten eight-hour days, in two five-day periods, acquiring or reacquiring a language. The first period stresses understanding the language, the second focuses on using it. Clients range from celebrities to corporate executives.

Beginning on May 5, the University of Pittsburgh at Johnstown will offer a special Thomas program, geared to business people, that will take place over three consecutive three-day weekends. Cost: $2,250.

How proficient can you expect to become in so short a time? Thomas claims that only a handful of his students, numbered in the thousands since he began his first school in Beverly Hills in 1947, have asked for their money back.

Prepaying your mortgage means losing tax deductions, but it will save you lots more in interest charges. *A Banker's Secret: Your Mortgage Is a Great Investment*, by Marc Eisenson, spells out the advantages of prepayment and includes step-by-step instructions on how to go about it. (Banks and other mortgage lenders are a lot more receptive to the idea than they once were.) For example, let's say you have a 30-year, $200,000 mortgage at 12%. Your monthly payments are $2,057.23. You would have to include only another $144.95 per month on your mortgage payment to lop 10 years off your mortgage. The interest savings: $212,070. *Banker's Secret* is available by mail, at $9.95 plus $2 for postage and handling, from Good Advice Press, Box 78, Elizaville, N.Y. 12523; 800-255-0899. After Apr. 15, it will also be in bookstores.

Air France is offering free upgrades from first class to Concorde service to Paris throughout March and also during this July and August if you buy your ticket on your American Express card. (One-way Concorde service is usually $2,438; first class from New York, $2,024.) If you're going beyond Paris on Air France, you can also get complimentary overnight accommodations and chauffeured airport transfers before continuing on your journey. Call your travel agent or Air France.

St James Court Hotel in London
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Frequent visitors to London might consider making the St. James Court Hotel, just a few steps from Buckingham Palace, their base there. Catering to the business traveler, the St. James offers leases for 3 to 12 months on its apartments (studio to three bedroom). Typical current price on six-month leases: $9,100 for a studio, $22,750 for a three bedroom, on leases signed before Mar. 31. (There will be a significant boost in rates as of Apr. 1.) Membership in the hotel's Chambers Business Centre (cost: about $875 per year) will give you a permanent London mail and message drop, access to secretarial and other business services, and discounts on business and conference facilities, as well as on hotel accommodations and the health club on the premises. Contact Taj Hotels, Suite 466, 230 Park Avenue, New York, N.Y. 10169, or telephone 800-458-8825. In New York City, call 972-6830.

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Sotheby's Art Market Trends

Index sectors	January 1989	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two years % change	Five years % change	Five years average annual % change
Old Master paintings	469	469	373	329	239	nil	+25.7	+42.6	+96.2	+14.4
19th-century European paintings	421	421	323	279	201	nil	+30.3	+50.9	+109.5	+15.9
Impressionist & Post-impressionist art	1,255	1,255	723	490	307	nil	+73.6	+156.1	+308.8	+32.5
Modern paintings (1900-1950)	1,138	1,138	757	512	282	nil	+50.3	+122.3	+303.5	+32.2
Contemporary art (1945 onward)	856	856	609	551	392	nil	+40.6	+55.4	+118.4	+16.9
American paintings (1800–pre-WWII)	1,076	1,076	871	698	556	nil	+23.5	+54.2	+93.5	+14.1
Continental ceramics	467	467	331	290	284	nil	+41.1	+61.0	+64.4	+10.5
Chinese ceramics	815	815	581	526	459	nil	+40.3	+54.9	+77.6	+12.2
English silver	388	388	381	343	219	nil	+ 1.8	+13.1	+77.2	+12.1
Continental silver	296	296	220	201	156	nil	+34.5	+47.3	+89.7	+13.7
American furniture	491	484	459	404	239	+1.4	+ 7.0	+21.5	+105.4	+15.5
French & Continental furniture	409	409	319	299	257	nil	+28.2	+36.8	+59.1	+9.7
English furniture	822	822	657	517	328	nil	+25.1	+59.0	+150.6	+20.2
Aggregate index*	740	740	514	407	286	nil	+44.0	+81.8	+158.7	+20.9

Basis: 1975 = 100 ($).

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*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

Sotheby's Art Market Trends reflect subjective analyses and opinions of Sotheby's art experts, based on auction sales and other information deemed relevant. Nothing in Sotheby's Art Market Trends is intended as investment advice or as a prediction or guarantee of future performance or otherwise.

Market highlights

In January, a relatively quiet month, New York City hosted a major series of sales of American folk art, silver, furniture and decorations, paintings and prints—Americana. American silver and porcelain were particularly strong performers. The Sam Wagstaff collection of American silver drew attention to the imaginative, stylistic range of this country's late-19th-century silver. Every piece in the collection sold, totaling $920,755.

Also in New York, approximately $28 million of Old Master paintings changed hands in a series of auctions, establishing several new artists' records. The condition of the paintings appeared to be an important factor in these Old Master sales. Buyers were willing to pay high prices only for the best-quality works in top condition, particularly for Dutch works. Italian Old Master paintings did very well. The star of the series was an allegorical painting by Giovanni de Lutero, known as Dosso Dotti. Purchased unrecognized at a country auction for $1,000, the work realized $4,070,000 when its artist was properly identified.

Minor sales of furniture in New York met presale expectations. Buyers bid competitively for items of good quality but showed little interest in items that were heavily restored or of mediocre quality.

In mid-January a series of sales of Chinese ceramics, works of art and paintings took place in Hong Kong. Among the highlights were 19 pieces of blue-and-white Ming porcelain from the collection of the late Mr. and Mrs. R.H.R. Palmer, which sold for a total of $3.5 million. Mr. Palmer had been the chairman of the British food manufacturing company Huntley & Palmer and had assembled his collection in the 1930s.

Christie's

Early Ming double gourd moon flask

Most of the major pieces in the Palmer collection achieved remarkably consistent rates of return. For example, a double gourd moon flask brought the top price of the auction at $521,800, compared with the original purchase price of $333 paid in 1934—an annual return in dollars of 14.6%. A "Palace" bowl purchased for $249 in 1936 now sold for $282,051—an annual return of 14.5%. And a Waisted bowl and cover, which had cost $611 in the late 1920s, sold for $310,260—a return of 13.4% per annum.

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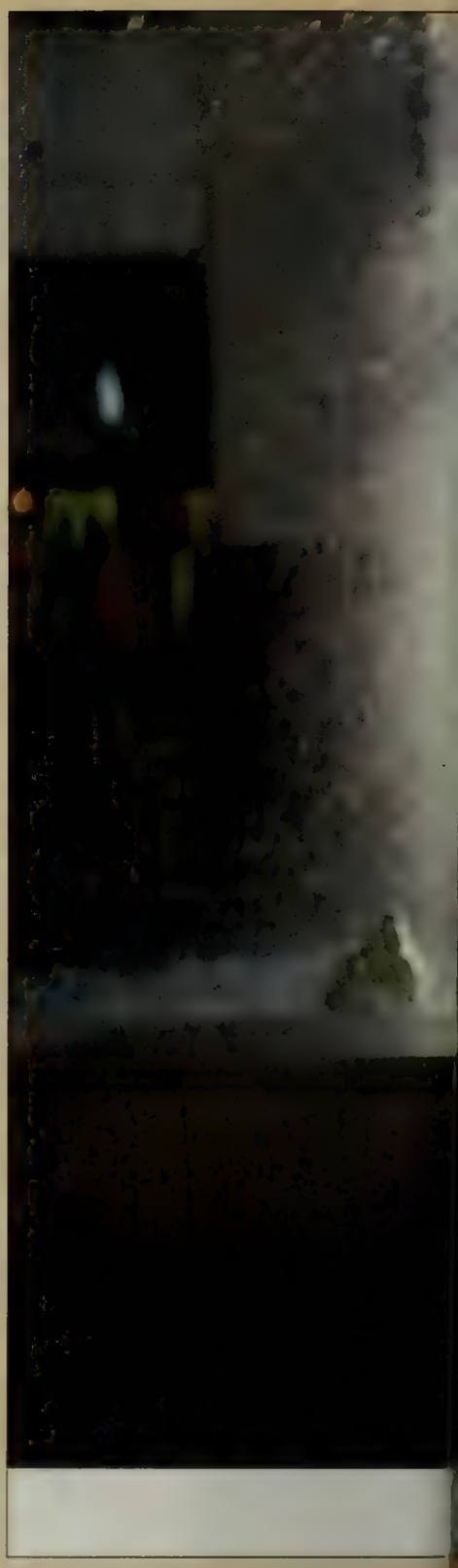
Twenty years ago she was pregnant and nearly broke in Bombay, India. Today Marjory Williams is rich and independent. Her secret? Fighting back against bad breaks, not giving in.

Taking charge



By Dyan Machan

According to the Small Business Administration, businesses owned by women now make up the fastest-growing segment in the U.S. economy. From 1980 to 1986, the number of such companies swelled from 2.5 million to 4.1 million, with women starting businesses at almost twice the rate of their male counterparts.

Who are these risk-taking women and what drives them? Most of them are in their early 40s, have worked in their previous job for at least seven years, and have started their businesses in various service sectors of the economy.

This is the story of one of these women, Marjory Williams, 44, who in 1979 started what is widely regarded as the U.S.' first chain of boutiques that cater specifically to executive women. In her wake have come such nationally known boutique retailers as Alcott & Andrews. But Williams was the first, and it was her success that proved that a market existed for boutiques catering to America's working women.

What inspired Williams to start her business? Partly it was the realization that women were entering the executive ranks of business in record numbers, but they didn't know how to dress the part and needed help. Yet on a deeper, more emotional level, Marjory Williams took the leap of her life when she realized that no matter how hard she tried, or how much she struggled, she would never become the chief executive of Dayton Hudson Corp., the Minneapolis department store chain where she worked as a buyer.

Today, running Dayton Hudson no longer seems like such a big deal to Williams. After all, her company, Laura Caspari, Ltd./SHE, Inc., has 17 stores stretching from San Francisco to Washington, D.C., with most clustered in the Midwest.

As a small business, Williams' operation happens to be in the most fertile part of the economy for generating jobs. She has 140 employees, and her company's nearly $5 million in sales has an important ripple effect on economies in towns like Minnetonka, Minn. and Schaumburg, Ill. Not only is she a customer for some 50 different clothing manufacturers from New Bedford, Mass. to Culver City, Calif., but her company is a regular bulk buyer of everything from boxes and wrapping paper to freight-forwarding and shipping services.

Marjory Williams is a bundle of contradictions. She's in the fashion business, but she's not a clothes horse. She studied British and American literature at Wellesley College, but she loves cheap spy novels. She logs in ten-hour days as the head of her company, but she's a single mother who cooks dinner for her teenage son at home every night.

Supermom? No such vision drove Williams. She's just a woman who got dealt some very bad breaks in life and, instead of pitying herself, dealt firmly with each crisis as it arose.

Her story begins in Bombay, India late in the 1960s. It was the Age o Aquarius, when American colleg campuses were disgorging their grac uates to the far corners of the earth i self-indulgent pursuit of their "tru selves." Through the U.S. Informa tion Service Marjory Williams foun herself teaching the novels of Willia Faulkner at the University of Bom bay. Married to an Indian architec she was coming home nightly to two-year-old marriage that was rapi ly falling apart. And she was pregna as well. It was, as she readily admit her "lowest moment. I was facing blank wall."

Mitch Kezar Black Star

Marjory Williams, president and chief executive of Laura Caspari Ltd./SHE, Inc.
A Wellesley education, cheap spy novels, and dealing with crises as they arise.

Instead of sinking into drugs, booze or self-pity, Williams looked around. Thirty years after gaining their country's independence from Britain, Indians were starting businesses right and left in a period of frenzied industriousness. Talking to Indian friends she came to understand that business could be more exciting than the inward-looking and self-absorbed world of literature. A career in business, she decided, was her way out.

Once the baby was born she made up her mind to go back to the U.S. and get a divorce. Back in Boston, she found money tight, jobs scarce; she had an eight-month-old child and no marketable skills. Since she liked to read, a career counselor offered her this advice: "Go be a librarian."

Williams had a loftier vision: She'd try to get into Harvard business school. She sent off an application, and as anyone might have told her, it was rejected.

At this point many people might have taken the predictable detour of the defeated and headed for that one place where they have to take you in: home, which in Williams' case was Louisville, Ky. But she didn't want to sponge off Mom and Dad. Besides, she says now, "If I didn't have confidence in myself, no one else would." In a burst of desperate energy, she started knocking on doors of Boston-area companies suggested by the Wellesley career office. Within two weeks she had a job as an assistant to a group of vice presidents for a local real estate investment firm, the Boston Financial Technology Group.

Five months later one of the vice presidents quit, and the company's boss, who prided himself on being "a very unorthodox thinker," tapped Williams as the replacement. The other managers—mostly male

Boutique founder, in front of one of her shops
"If I didn't have confidence in myself, no one else would."

Mitch Kezar/Black Star

Back in Boston, she found money tight, jobs scarce; she had an 8-month-old child and no skills. Since she liked to read, a career counselor offered her this advice: "Go be a librarian."

M.B.A.s—tried to pressure the boss into backing down. He stood his ground and Williams was soon a vice president herself—in an industry she basically knew nothing about.

The job was challenging, to be sure, but what she really still wanted was to get into the Harvard business school. After a year at Boston Technology she reapplied, and in 1974 was accepted.

All of which explains how Marjory Williams, newly graduated, found herself in the summer of 1976 on what she thoroughly believed was the fast track to success as an assistant buyer at Dayton Hudson.

More bad luck. Two years after she started at Dayton Hudson, a corporationwide restructuring cleaned out her mentors and sponsors. Instead of moping, Williams took action. She went to her boss with the idea for boutiques that would cater to working women like herself. No luck. She then approached her boss' boss and even Dayton Hudson's president. No go. "This wasn't what I came for," says Williams now. "It took all the adrenaline out of me."

Before she quite knew what was happening she was working on a plan to start her own boutique, maybe even a whole chain of them. The idea would be to create a mix of merchandise, presentation and service that would serve the needs of busy career women and working mothers—people like herself.

In March of 1979 she placed a ten-page business plan, which she had written herself, before First Bank of Minneapolis, and a month later a $90,000 loan backed by the Small Business Administration was approved. By the time she found floor space in a local shopping mall for her first boutique—dubbed "SHE"—Williams had quit her job.

In her first store window, Williams displayed three efficient-looking suits in gray, navy blue and camel. Placed nearby was a symbol of what her life was rapidly becoming, and where she wanted it to keep going: a copy of the *Wall Street Journal*.

Service was her thing. When women walked in, one of her eight saleswomen would offer them coffee, then discreetly offer them help on assembling a wardrobe. Williams' life was growing busier, and so, she assumed were the lives of women like her. So she began offering a shop-by-phone service and a counseling service on how to assemble wardrobes for business trips.

The reaction from customers: "Where have you been all my life?" they would ask.

The company was profitable in its first month, and those profits fueled the opening of three more stores in the first year. Sales grew to $500,000 and the number of employees went from 8 to 60.

In less than ten years, Laura Capari/SHE (named after her great-grandmother) has become a widely known and respected chain throughout the Upper Midwest. In 1987 Williams was named Minnesota's "Entrepreneur of the Year," and she has been approached by investment bankers to take the company public. In addition several large retail chains have offered to buy her out. So far, she's smiled politely and said no thanks. Having spent most of her life being buffeted by destiny, she very much likes the idea of being in control of her fate at last. ■

Faces
Behind the Figures

Edited by Jason Zweig

License to loot

It takes a desperate man to seek sanctuary among the militias and mortar fire of West Beirut. Roger Tamraz, the Egyptian-born president of Almashrek Bank in Beirut, was accused in December by Lebanese au-

Lena Kara Sipa Press

Financier Roger Tamraz
Hunkered down in West Beirut.

thorities of siphoning an estimated $154 million out of the second-largest bank in Lebanon. After the Lebanese attorney general issued a warrant for his arrest, Tamraz, a Maronite Christian, fled to, of all places, predominantly Muslim West Beirut. He recently checked out of the posh Summerland Hotel and is hunkering down in a rented apartment in the city.

Tamraz, 48, is a Harvard Business School graduate and former Kidder, Peabody investment banker who rescued Lebanon's Intra Bank from economic collapse in 1966. The Lebanese government hired him in 1983 to run Almashrek Bank, which is 42% owned by Intra Investment Co., the successor to Intra Bank.

When Tamraz took over at Almashrek, the bank was in excellent financial shape. But it appears Tamraz, who owns 42% of Almashrek through a holding company, started plundering the bank as soon as he arrived. According to a report by a Lebanese presidential commission appointed to investigate his activities, Tamraz pumped tens of millions of dollars into overseas bank accounts. Many millions more went to buy a casino in Portugal and property in Marbella, Spain.

The Lebanese Central Bank bailed out local depositors, but the scandal has spread past the border. In January the Swiss banking commission ordered Banque de Participations et de Placements, Almashrek's affiliate in Lugano, to liquidate its assets so depositors and creditors could be paid. The BPP affiliate of Intra in Paris may face a similar fate.—**Zina Sawaya**

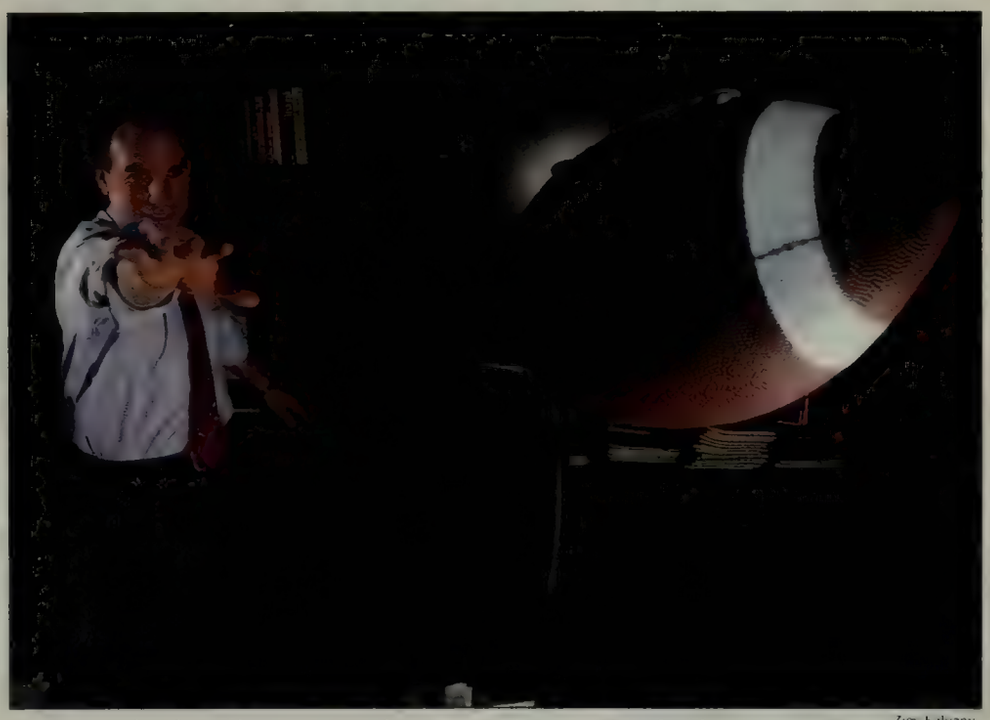
Still the artful dodger

In the boom-or-bust world of Texas real estate, some mighty smart people have ended up losing mountains of money. One who managed to make money steadily through it all is former Dallas Cowboy football star Roger Staubach, 47.

Like a quarterback calling audibles at the line of scrimmage, Staubach nimbly responded to the needs of the moment. In 1977 he formed a Dallas real estate development partnership just as the oil-fed economy was taking off. But by 1982 Staubach had gotten squeamish at the sight of developers, bankers and syndicators whipping themselves into a building frenzy. "I could feel the problems coming," he says. So he dissolved the partnership and formed the Staubach Co. The Southwest is a "renter's market," he explains, and as a result Staubach Co. is in the business of analyzing clients' space requirements, negotiating leases, coordinating engineering and design, overseeing construction and sometimes acquiring property on commission.

Since then, Staubach Co.'s revenues have climbed from $1 million in the fiscal year ending in June 1983 to an estimated $19 million in the year ending June 30. Richard Rainwater, the former economic adviser to the billionaire Bass brothers *(see story, p. 49)*, bought a 20% stake in the company in November.

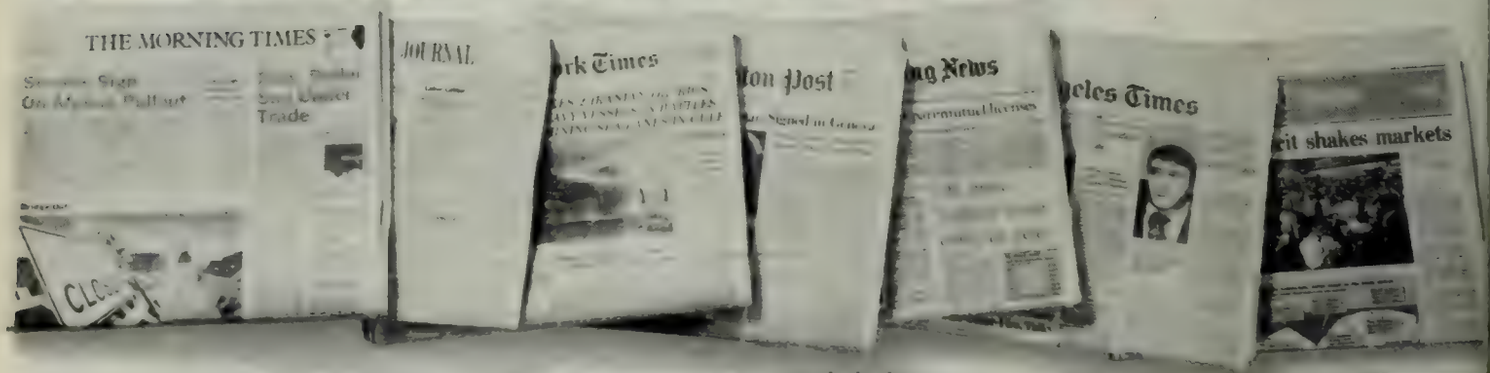
Staubach, a 1965 graduate of Annapolis and a Heisman Trophy winner, seems to have plenty to do, having opened offices in metropolitan Washington, D.C., Nashville, Atlanta, Boca Raton and Newport Beach, Calif. Rumors have begun to circulate, nevertheless, regarding political ambitions. "I don't have time for anything but business right now," says Staubach. "My wife says I've become a workaholic."—**John Taylor**



Zigy Kaluzny

Ex-quarterback and current real estate man Roger Staubach
Texas properties haven't thrown him for a loss.

MOST OF WHAT WE HAD TO SAY ABOUT BUSINESS THIS MORNING WAS UNPRINTABLE.



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Top Business News	6:30	7:00	7:30	8:0
Financial News	6:35	7:05	7:35	8:0
Small Business News	6:40	7:10	7:40	8:1
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:1
Internat'l Business Line		7:25		

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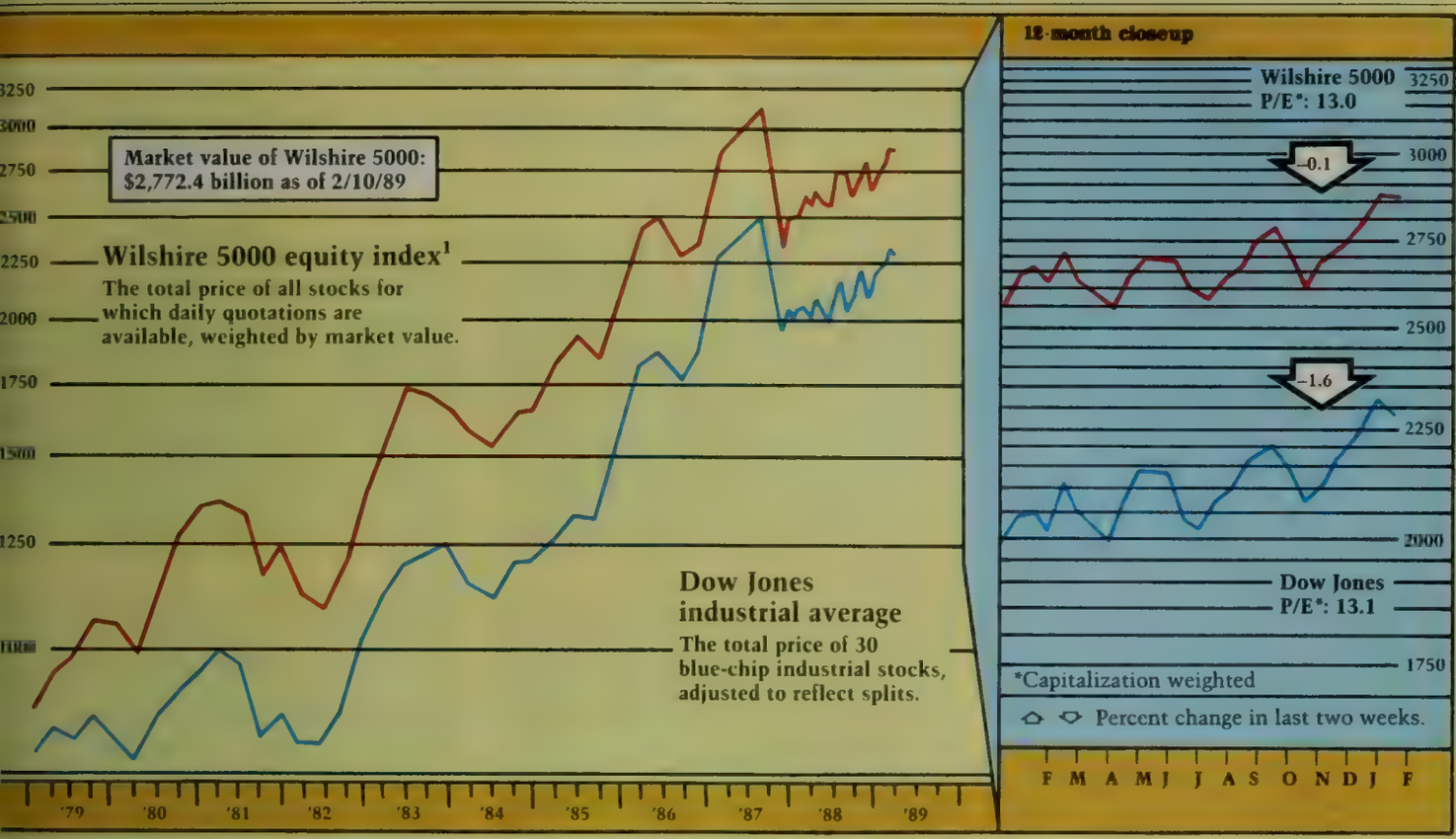


Believers in the old "odd lot" theory—small investors are usually wrong—have new grist for their mills. The ratio of mutual fund purchases to mutual fund sales suggests that small investors are returning to the market, something that traditionally happens in the later stages of a rally. According to *Investor's Daily*, currently, the mutual fund purchase ratio is at 1.13, meaning that there were $113 of purchases for every $100 of redemptions. That's up from a low of 0.81 last August. Thus, it seems that it was more than the institutions driving the recent 12-week 309-point rally in the Dow.

But, interestingly, with all those small investors jumping into the market, somebody was selling off the blue chips. The Dow closed lower in seven of the last eight sessions and it finished the recent two-week period with a 1.6% decline. The selloff did not extend to the secondary stocks: The o-t-c and the Amex advanced 1.1% and 0.4%, respectively.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.2	2.9	2.7	2.8	2.2	3.9
in last 52 weeks	13.6	13.1	15.3	13.2	16.5	13.9

Stock performance based on six key investor yardsticks[3]

Percent change	Company size		Volatility[4]		P/E multiple		Dividend yield		Growth profile[5]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	3.4	4.6	4.1	1.6	3.4	4.4	1.8	2.8	5.0	2.3	3.2	4.0
in last 52 weeks	15.9	14.6	19.3	6.4	32.3	16.7	2.4	23.6	15.3	12.2	32.3	3.8

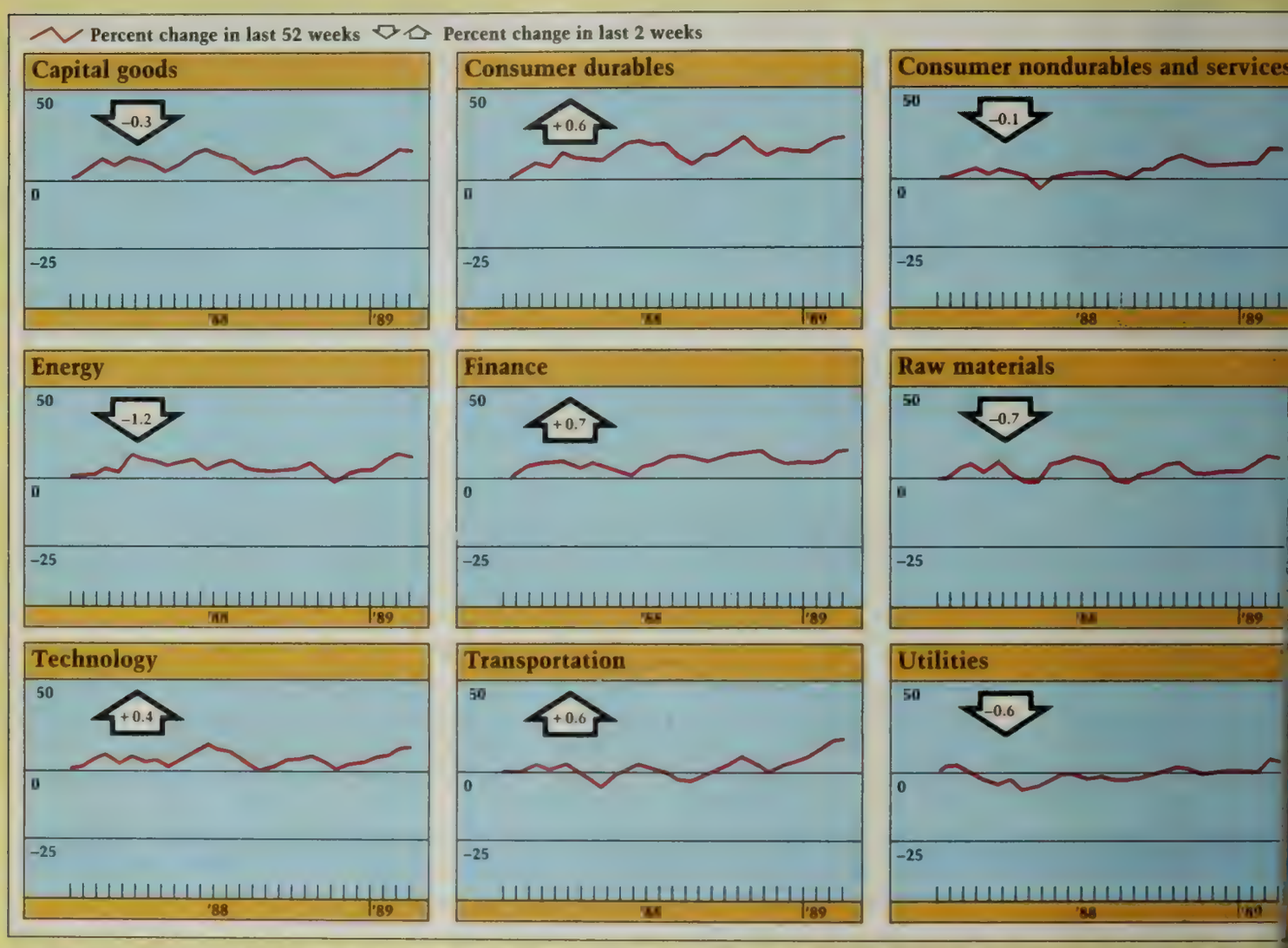
Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. Equal weighted indices containing all shares with market capitalizations over $10 million. [4]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [5]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 2/10/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Against the tide. While the overall market, as measured by the Wilshire index, fell 0.1% in the last two weeks, four of the nine Wilshire sectors managed to post gains. The finance group, led by insurance and savings and loan companies, was the strongest sector. Investors responded positively to a proposed federal bailout of the troubled thrift industry. Technology also advanced, led by Commodore International, which gained 16.8%. Commodore, which manufactures both IBM-compatible and noncompatible computers, is a former Wall Street favorite that now appears to be making something of a comeback. Microsoft, Mentor Graphics, General Instrument and Novell all gained more than 10%. Consumer durables and transportation stocks also posted two-week advances.



What the Analysts Think

So where is the recession? Analysts raised 1989 earnings estimates for General Motors and Chrysler. With the automakers in favor again on Wall Street, it's all too likely that analysts raised their estimates to justify the runup in stock prices. The experts are now forecasting 1989 earnings of $13.33 a share for GM and $5.25 for Chrysler.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.35	12.0
1989 estimates	3.95	10.2
1990 estimates	4.53	9.4

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estima in 2 weeks	% change in 1989 estima in 4 week
1	Consumer durables	$5.06	10.8	2.86%	3.12%
2	Raw materials	3.54	9.2	1.39	1.25
3	Utilities	3.06	10.1	0.06	0.26
4	Energy	3.06	11.9	0.07	0.30
5	Consumer nondurables	2.76	13.0	0.01	–0.09
6	Finance	3.77	7.9	–0.12	–0.31
7	Capital goods	3.03	12.6	–0.38	–0.43
8	Technology	3.21	11.1	–0.49	–0.77
9	Transportation	2.83	10.4	–1.38	–1.42

Earnings projections are capitalization weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brok Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York based brokerage firm.

Note: All data for periods ending 2/10/89. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

It seems that most junk bond funds are sold, not bought. It also seems that they're often sold to people who don't know the difference between yield and return.

Who's buying junk?

By Jack Willoughby

JUNK BOND FUNDS have been doing well of late, both in sales and in performance. With $27 billion as of Sept. 30, taxable "high yield" funds now account for one in ten asset dollars in the FORBES bond fund database. As for performance, the 35 junk funds that have been around for at least three years have edged out the Merrill Lynch corporate/government master index we use as our benchmark.

All is well, then? All except for the distinct possibility that a lot of the buyers have only a faint understanding of what they're buying and commit that greatest sin of bond investing: shopping for yield. Consider the contrasts between two of the larger junk funds, the no-load T. Rowe Price High Yield Fund and the load Dean Witter High Yield Securities.

Manager of the Price fund in Baltimore is Richard Swingle, 44, who explains his objective: "I see investing in high yields as getting the same kind of return as in stocks with one-third the volatility." Lately he has delivered. Last year he combined a little bit of appreciation and a 12.2% yield for a total return of 17.8%, ahead of the stock market and ahead of all but one other junk fund (Eaton Vance's). We calculate his volatility as just under one-third that of the market.

The manager of Dean Witter High Yield wouldn't talk to us, so we visited the Sears, Roebuck in a Staten Island, N.Y. mall. There, in a booth across from boys' pajamas on the second floor, you can get a prospectus that advertises the fund's rich dividend ($1.80 a year on a net asset value on Dec. 31 of $11.63) but that has the fund's total return nowhere in it. The broker on duty burbled: "Seniors planning for retirement buy it because there's really nothing that can give them that kind of nice yield."

Yield? What's the use of yield if you lose your principal? Unlike the more conservatively managed Price fund, the Dean Witter fund got its fat yield by reaching for it, with a heavy dose of risky buyout bonds carrying 15%, 16% and even 17.5% yields. All the while these instruments create book income, they take hits to principal whenever interest rates rise. These hits are the worst for the zero coupons and the delayed-interest bonds that make up almost a fifth of the Dean Witter portfolio. Thus the fund, in its fiscal year ended last August, paid out $287 million in dividends while losing $275 million of principal. Despite a 15.5% yield, the fund's total return in calendar 1988 was only 10%.

The better junk

These are the best three-year performers among taxable high-yield bond funds.

High yield fund name	Annualized 3-yr total return[1]	Load fee	Yield[2]
Kemper	13.8%	4.50%	12.6%
Eaton Vance	12.2	4.75	14.9
Investment Portfolios	12.2	5.00[3]	11.4
Delaware Delchester	11.9	6.75	12.3
T Rowe Price	11.7	0.00	12.2

[1]Through 12/31/88 [2]Last 12 months income dividends divided by 12/31/88 net asset value [3]Includes back-end load

Now, which fund has more assets? The Dean Witter fund, with $2.1 billion, is almost twice as big as the Rowe Price fund. No-load funds like Swingle's are outsold in the junkyard. While no-loads have captured 30% of all open-end fund assets (excluding money market funds), they have only 12% of junk bond fund assets.

Over the past three years the Dean Witter fund averaged an 8.4% annual return, about the same as the Merrill Lynch benchmark for government and corporate bonds. The Rowe Price fund averaged 11.7%. Tying the averages isn't too bad, especially since the funds' performance numbers are after management fees and miscellaneous expenses (but not after the sales load, which is 5.5% in Dean Witter's case). On the other hand, the recession-free years of the mid-1980s were kind to junk bond holders. Recent returns may overstate what a junk portfolio can do over the long pull.

Junk funds have, besides recession risks, liquidity problems that high-grade bond funds don't have. The prospectus for the Dean Witter fund, for example, says the fund owns $74 million of Archer Daniels Midland zeros due 2002. What it does not show is that there were only $92 million of the issue outstanding, and the fund bought 80% of it. If it had to sell in a hurry, it probably couldn't get a good price. Further evidence of uncertain liquidity is in the mushy pricing of thinly traded junk issues. Dean Witter's prospectus conservatively prices Benjamin Frankin Savings 15⅜s of 1997 at 50 as of Aug. 31. American Capital's fund held the same issue on the same day at 60. There is no right price for something that trades thinly.

There's another subtle weakness in some junk funds, again typified by the Dean Witter portfolio: prepayment risk. A leveraged-buyout deal may offer very high returns for bondholders, to compensate for the risk involved. But it's a lopsided bet. If rates go down or the company's credit quality improves, the bond is called in and the holder doesn't enjoy the high yield for very long. If events make the bond worth less, the holder is stuck with it. This downside is particularly acute, says Jane Tripp Howe, a Boston credit analyst and consultant, with delayed interest bonds. The Dean Witter fund is 13% in such bonds.

The bottom line: If you want to invest in a junk fund, look carefully at the merchandise. ■

The price-to-sales ratio is one good measure of investment value. An even better one is relative total PSR.

New, improved version

By Evan Sturza

KENNETH FISHER, the FORBES columnist and Woodside, Calif. money manager, has done much to popularize the price-to-sales ratio, a quotient that indicates how much the market values a dollar's worth of sales. The idea is that companies with low PSRS—that is, companies trading cheap in relation to their sales—may be bargains. Typically, companies with meager profit margins are the ones with low PSRS. If their profit margins rebound to more normal levels, then earnings will shoot up and, presumably, the stock will, too.

PSRS are simple enough to compute

The price is right

How do you know whether a business is underpriced? One way is to compare the total price—debt plus common stock capitalization—to the sales, in the total-price-to-sales ratio. The "relative" total PSR, by which these stocks are ranked, is a company's total PSR compared with that of its industry group.

Company/Industry	Recent price	Market value	Total debt	Sales	Price/ earnings	Price/ book*	Interest coverage	Total PSR absolute	Total PSR relative
		$ mil							
United Brands/food processing	15¼	$664	$186	$3,268	9.7	1.6	6.1	0.26	0.29
Commercial Metals/steel	22⅜	254	35	1,129	8.9	1.1	10.5	0.26	0.32
Loews/diversified	82¾	6,322	1,463	9,254	10.6	1.7	5.5	0.84	0.37
Standard Commercial/tobacco, wool	16	131	248	750	12.1	0.9	10.3	0.51	0.38
AG Edwards/financial services	22¼	454	59	505	13.3	1.9	17.2	1.02	0.40
Butler Mfg/building materials	35¾	162	43	615	11.7	1.3	5.2	0.33	0.41
RussTogs/apparel	13	94	17	271	13.7	1.4	11.1	0.41	0.45
General Dynamics/defense	51½	2,159	428	9,344	7.6	1.8	10.4	0.28	0.47
Bearings/machinery	38¾	200	32	543	12.0	1.2	8.0	0.43	0.48
Nashua/office supplies	36⅜	346	73	865	11.3	1.5	5.4	0.48	0.50
George Banta/printing	23½	273	38	302	13.2	1.9	10.7	1.03	0.54
Van Dorn/containers	18¼	163	18	330	12.0	1.5	15.4	0.55	0.60
Witco/specialty chemicals	36¾	821	247	1,428	12.5	1.8	7.3	0.75	0.63
Lafarge/cement	16¾	711	217	1,222	8.9	1.1	5.5	0.76	0.63
Delta Air Lines/airline	56¾	2,786	766	6,915	8.0	1.2	5.7	0.51	0.64
Flexsteel Ind/furniture	12¼	88	6	165	10.0	1.3	20.9	0.57	0.68
Georgia Pacific/forest products	41	4,294	1,640	8,603	9.1	1.7	6.5	0.69	0.69
Harris Corp/electronics	29⅜	1,227	148	2,063	11.8	1.3	8.5	0.67	0.69
House of Fabrics/fabric retailing	21⅜	140	29	323	13.1	1.1	9.6	0.53	0.71
Wausau Papers/specialty paper	36¾	183	19	284	10.4	1.9	13.8	0.71	0.71

*Book value excludes intangible assets such as patents and goodwill.

Source: Value Line Database Service via Lotus CD Investment

For example: Texaco's 244 million shares outstanding sell for $50 each. Multiplying the two produces a $12.2 billion market value. Dividing this by Texaco's latest 12-month sales of $34.6 billion results in a PSR of 0.35. An investor would, therefore, be paying 35 cents for every dollar's worth of Texaco's sales, which is roughly half the ratio of the average S&P 500 stock.

The PSR, once an arcane statistic, is becoming more accepted. But it has two weaknesses. One is that heavily leveraged companies have a way of looking cheaper than they should. Texas Air is a good example. With a market value of $600 million and sales of $8.5 billion, it appears to be very attractive, with a rock-bottom PSR of 0.07. But the air carrier also has about $5 billion in debt, including capitalized leases and bank loans.

The other failing is that the formula doesn't explicitly allow for the wide variation in PSRs that you get from one industry to another. PSRs for wholesalers tend to be less than 0.25, for broadcasters more than 1.50. Does that mean wholesalers are much better buys than broadcasters? Not necessarily. Profit margins in wholesaling are and always will be low.

Fisher deals with the leverage problem and with industry variations via an intricate formula that weights six different variables.

In preparing our list of stock picks, we took a slightly different tack. In lieu of price we calculate a "total price," which adds to market capitalization of common shares the total debt outstanding. And for each company we divide the resulting total-price-to-sales ratio by the average total PSR of its industry peers. This gives us a relative total PSR, shown in the last column.

Our search for buys started with the Value Line database of 1,700 stocks. After excluding insurance companies and banks, we screened for companies that had relative total PSRs below 0.75. That is, their total prices, compared with their sales, are at least 25% below the typical ratio for their industries. The firms also had to pay dividends, be priced at less than 14 times earnings and less than 2 times tangible book value, and cover their interest costs by at least 5 times.

Delta Air Lines is the least leveraged major airline (FORBES, *Jan. 9*). Its Fisher PSR is 0.40, while its total PSR rises to only 0.51. Since the total PSR averages 0.80 for the airline industry, Delta's relative total PSR comes out as 0.64. In addition, the carrier sells for 8 times latest 12-month earnings and only 4 times cash flow. ■

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13.70%	12.39%
1-year total return for period ended 12/31/88	Average annual total return since inception on 3/5/84 for period ended 12/31/88

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The Fortune 500 measures the sales of industrial companies only (in an outmoded '50s assumption that only industrials count). But what counts as an industrial company? It's hard to say. Why, for instance, is Dow Jones included in the Fortune 500, while the much bigger Dun & Bradstreet is not?

In fact, many top companies (like Sears, American Express or Citicorp) aren't on the Fortune 500. They banish them to other listings in other issues.

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A REIT's recent bankruptcy has frightened investors away from collateralized mortgage obligation residuals. Does that make the residuals bargains now?

CARVING UP MORTGAGES

By Ben Weberman

An Oct. 31 article in FORBES warned that the newly popular real estate investment trusts specializing in collateralized mortgage obligation "residuals" held plenty of danger. The residual is a tag-end interest in a mortgage pool. Variations in the repayment rate of the underlying mortgages, or in interest rates, can have dramatic impact on the value of the residual.

Dangerous these investments are: One of the REITS, Residential Resources Mortgage Investment Corp., went bust in January, seven months after it came to market. Can't say investors weren't warned. The prospectus (p. 12) states: "The manager is a newly organized corporation which has no experience with respect to the strategies which the company intends to pursue."

An older, larger and more stable residual REIT is Asset Investors, formed in December 1986. Nevertheless, monthly dividends have fallen from 23 cents a share in December to 15 cents in February. Hardly surprising that the price has fallen from 15 at issuance to 10½.

But suppose you found a manager you trusted. Should you be buying a fund that invests in residuals now?

Ben Weberman is a contributing editor of FORBES magazine.

It depends. We'll consider here the pros and cons of a pair of such funds, from Peter Peterson's much-publicized Blackstone Group.

Both of these funds are closed-ends, and both are new. Blackstone Income Trust came out in July with a starting net asset value of $9.30 per share, and Blackstone Target Term Trust came out in November with a starting value of $9.40.

Laurence Fink is the brain behind the Blackstone funds. He makes the case that, as a result of the Residential Resources failure, yields on mortgage residuals are richer these days. On Oct. 31 only 5% of Income Trust's $800 million in assets was in residuals. By Feb. 8 Fink had pushed the fraction to 15%.

One problem with these strange mortgage investments is they are very illiquid. There is no such thing as a generic residual, so you can't pick up the paper and find yesterday's close, as you can with a Treasury or a Ginnie Mae. Moreover, even if you could get a price, it would be hard to tell whether the residual is cheap or dear. The answer to that depends on a host of factors, including short-term interest rates, long-term rates (which affect mortgage prepayments) and expected volatility in rates. To shop for residuals you really need a computer and a staff of mathematicians.

Let's take a step back. A collateralized mortgage obligation is one of the pieces you get when you carve up a pool of mortgages. The carving yields several "tranches" designed to look like short-, intermediate- and long-maturity bonds. They get first call on the cash flow of the pool of underlying mortgages. The carcass that remains is the residual.

Because the early tranches of bonds have fairly predictable maturities, they can be sold with low yields—lower, at any rate, than the overall yield on the mortgage pool. The residual holder picks up this spread. He can do very well, as long as rates don't shift unfavorably. If they do, he'll absorb almost the full hit for the damage to the mortgage portfolio, while the early tranche holders are fairly well cushioned.

Consider that most risky of all residuals, the one left when a series of floating-rate tranches is carved out of a package of fixed-rate mortgages. The math is complicated, but suffice it to say that the buyer of the residual is making a very risky bet, similar to buying a bunch of long-term mortgages on very steep margin. This is borrowing short to lend long—the very bet that bankrupted any number of thrifts.

Such a risky residual may have an apparent yield of 18%. But such a yield is an illusion. If the holder were to hedge away the risks with options or other instruments, he'd wind up with a much lower net yield—maybe 11%. Fund managers are paid to do just such hedging.

How have Fink and his crew done? So-so. The Income Trust has a total return for the six months through Jan. 31 of 1%, against 5% for the overall bond market, as measured by the Merrill Lynch Corporate/Government Master Index. But this was a difficult half-year for mortgage investments. The newer Target Term Trust, with assets of over $1 billion, has done very well. Its total return in the three months through January was 5%, against 1% for the Merrill index.

Blackstone's aim is to deliver returns (before its fee of about 0.65%) of 10% to 11% a year, at a time when plain old Ginnie Maes are earning about 10% with considerable reinvestment risk. With deft maneuvering in the residual market, its traders may succeed. But remember, if it does that well, somebody on the other side of the trades must be doing poorly. There is no way to carve up 10% so that everybody earns 11%.

One more caution. At 9⅜, Blackstone Income Trust was recently trading at a 6% premium over net asset value. Closed-end funds have a way of eventually sinking to a discount to asset value, so you could take a 6% hit even if the managers do well. ■

What's in a name? Shakespeare asked. Money. There are lots of stocks that don't reflect the value of their brand names.

ALL IN A NAME

By Kenneth L. Fisher

Investors often complain they can't do the kind of in-depth research I advocate. But on a limited scale they can. They can start right in their favorite supermarket.

Names like Coke, Revlon and IBM are obviously golden. But there are oodles of smaller, still substantial, midsize companies that own strong brand names. Why bother to seek them out? Most consumers will pay a premium in the store to buy a name they trust rather than buy an unknown imitator. In that premium is an advantage for the name's owner. The stronger the name, the stronger the edge. Strong brand names tend to have staying power—for decades or longer.

Folks seem to feel more comfortable with the familiar, and brand names are nothing if not familiar. *Coors* (19), for example, recently found that when it changed its familiar yellow can, it lost sales. Folks thought the beer must have changed. Not so, but Coors' diehard fans wouldn't buy the new label. While some folks see that as a sign of failure for Coors, I see it as tremendous power. Cheap stock.

Outboard Marine (30) demonstrates the same principle in reverse. Chief Executive Charles D. Strang is quite open and honest about the fact that his famous Evinrude and Johnson brands are today identical, except for the paint and nameplates. But the customers think they are different, and by offering both OM gets extra sales. Clearly, both names are worth money. Yet OM stock doesn't reflect the value of these franchises, selling at 35% of sales, eight times earnings and a hair below book value.

Oneida (18) demonstrates another of the advantages brand names can carry. Food tastes the same to me no matter whose fork it's on, but consumers who want "the best," whatever that means, do pay a premium to have the Oneida name stamped on their tableware. Oneida gets a fatter profit margin and return on equity than do competitors.

Huffy (15), the bicycle kingpin, not only has a leading brand name, which is recognized by kids everywhere, but it also has high relative market share in its field—a great double whammy. None of this, much less Huffy's dynamite balance sheet, is reflected in the current stock price.

Or take *Holly Farms*. Not to brag, but I recommended it here last June 13 at 33. As the dominant brand name in chickens, it was clear the stock was worth more than the 130% of book value that it was at then. Since then ConAgra and Tyson have been clubbing each other in a billion-dollar takeover tussle to get control of Holly at prices on the high side of 60. Why? They both want Holly's very visible name for their own high-volume but no-name chicken operations.

There is still another way brand names can work. *Stanley Works* (30) shows it. For all the reasons already stated, most folks will pay a slight premium for Stanley's tools. But because the hand tool industry is so fragmented, with so many types of tools, Stanley is able to grow by adding new products with the Stanley name and instantly gain a leg up on older, more entrenched firms. It doesn't matter what type of tool it is, most folks feel safer with a Stanley. Its stock is currently just a hair too high for my cheap tastes, but if it should drop 20%, it would make a very nice tool in my portfolio.

Another plus for brand names, in this era, is their value to corporate raiders: Whether it's Revlon several years back or the recent RJR deal, brand names have been more than heavily represented in recent takeover tussles. And again, not just big names. From when I started to write this column, two of the stocks I intended to include—*SSMC Corp.* (32) and *Formica* (22), whose name is generic for its product—have both seen takeover announcements. Ditto for *Coleman* (68, suggested in my Nov. 14 column at 41), which was up $20 the day this column went to press because Sheldon Coleman just made news taking it private.

Getting back to brand name research for the average investor: There are two parts to it. First, talk to store employees. For example, for a firm like Coleman, go to about five sporting goods stores, including ones that don't carry Coleman. Ask why they carry the lines they have—what's good about them—and what their customers think. Getting folks to open up is an art not a science, but almost anyone can do it if he keeps at it. The more you ask, the more you will think to ask.

Then, as if you were an election pollster, conduct exit polls. It takes courage to approach folks, because half of them will think you're nuts, but after a while it's fun. Stand outside a store and, one by one, ask a handful of customers what they think of the products. If you smile, focus on them and seek their views, more will talk than not. The benefits? Learning where your own biases are in conflict with those of the average consumer. Better still, it will help your picking of unpopular, cheap stocks and make you feel far safer owning them. There's gold in them thar brand names—and not just in the big, obvious ones. ■

Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books, The Wall Street Waltz *and* Super Stocks.

MONEY & INVESTMENTS

The next depression, an inflationary not a deflationary one, began in 1982.

WELCOME TO THE THIRD WORLD, UNCLE SAM

By Ashby Bladen

While Congress and the new Administration are bickering over the savings and loan crisis, this is a good time to remind you that it is not an isolated event. It is part of a widespread financial crisis much like the one our parents faced at the end of the 1920s. But this time it is likely to lead to a hyperinflationary rather than to a deflationary depression, because governments will continue to borrow and spend on bailouts as long as their credit lasts. So the knee-jerk conclusion that the onset of depression means falling interest rates is likely to prove a costly one for investors.

Financial troubles have been popping up in this country ever since the Fed started trying to control inflation with credit crunches in 1966, and in the Third World ever since the U.S. banks' foreign lending spree came to a screeching halt in 1982. But our politicians and their economic advisers still view those troubles as a matter of one thing going wrong after another. They do not see them as the symptoms of a progressively worsening disease that we caught from the Keynesian new economists of the Kennedy Administration and the Third World caught from the development economists. It will end in the second worldwide depression of the 20th century.

Economists do not call the Third World's troubles a depression because to them depressions are by definition deflationary. Moreover, they can't lump the Third World's current troubles together with the Great Depression because they were brought up in the belief that economics is an exact science like the physical sciences, in which the same effects must always have identical causes. But I call a decline of 25% or more in the national standard of living, which many countries have already experienced, a depression, no matter what caused it.

Economics is not an exact science because people are much more complicated than the things the physical sciences study. One difference is that we human beings have the ability to learn from experience, so we seldom make exactly the same mistakes our parents did. Instead, we make new ones of our own. The fact that our generation learned from the Keynesians to drown our troubles in a flood of debt ensures that the next depression will be quite different from the last one.

You may recall that before 1936 economic science taught that prolonged depressions were theoretically impossible, because of self-correcting mechanisms within the economy. So before Keynes could get a hearing for his ideas about how to cure them, he first had to show how prolonged depressions could happen. His answer, in the *General Theory,* was that if people tried to save more than the business community was willing to invest, total demand would fall short of supply, and employment and incomes would shrink until people no longer could afford to save more than was being invested. So, he wrote, depressions can be prevented if the government makes good the shortfall by borrowing and spending and by encouraging the rest of us to borrow and spend for ourselves.

Now, that is a very nice theory, but it has nothing to do with what had actually happened in the 1920s. Not savings but rather borrowing and spending were excessive from 1914 on. Moreover, in the 1920s Third World countries borrowed and spent to hold on to the market shares they had gained during the war, when Europe stopped producing and starting fighting. It was really a case of too much supply financed with too much debt. So when the Third World was no longer able to finance price stabilization pools but had to dump its inventories for whatever it could get, the result was a deflationary depression. The same thing happened in the 1980s when overborrowed oil producers like Nigeria had to dump oil in order to service debts.

If Keynes had stuck with the theme of his earlier book, *The Economic Consequences of the Peace,* and explained the particular depression of the 1930s as the result of the excessive debts incurred since the beginning of World War I, his disciples most probably would not have gotten us into the mess we are in now. International markets are once again very deflationary, because international credit has again run out. But internally, all the governments that have not totally destroyed their creditworthiness are borrowing to bail out failing businesses, and so domestic inflation accelerates.

The U.S. is now the world's banker, as Britain was until September 1931, and just as the collapse of confidence in sterling turned the slump of 1929-31 into the Great Depression, so the coming run on the dollar will spread the Third World depression worldwide. But because the Keynesians taught us that the cure for the troubles caused by excessive borrowing and spending is more borrowing and spending, it will start as an inflationary and high-interest-rate depression. ■

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

Harry Browne is back with a scary scenario—and some sensible advice.

PUT YOUR EGGS IN SEVERAL BASKETS

By Mark Hulbert

"For the first time in many years," writes Harry Browne in his provocative new book, *The Economic Time Bomb* (St. Martin's Press, $19.95), "I feel a sense of immediate danger about the economy." Is Browne just another scaremonger? Or should we take him seriously? My *Hulbert Financial Digest* shows that Browne's letter, *Harry Browne's Special Reports*, is one of just six that have beaten the market on a risk-adjusted basis over the past five years. Yes, take him seriously.

Browne believes that a "runaway crisis" could erupt at any time because of the interaction of three current economic problems: the Federal Reserve-induced recession/inflation stop-and-go, the federal debt burden and the semi-insolvent banking system. The high level of interest payments on the federal debt, Browne argues, could result in the Treasury's crowding private borrowers out of the bond market whenever the Fed accidentally precipitates the next recession. This could exacerbate the downturn, and multiple bank failures would compound it. Only massive money creation will be able to get the economy moving again—and that will result in an inflation explosion.

The crisis could be averted, Browne says, but it isn't very likely. "The government can no longer relieve any one of [these problems] . . . without intensifying another one almost immediately."

Many superbears these days are liberal interventionists, like Professor Ravi Batra. But not Browne—he is a radical believer in free markets, heavily influenced by the "Austrian" school of economics *(see p. 86)*. This actually poses a difficulty for him. Austrians think detailed economic forecasting is impossible. In his letter and previous books, Browne has regularly contended that no one can absolutely predict the future. So why should we believe him now?

Well, because Browne's economic analyses have been distinctly penetrating, especially in examining often-overlooked economic contingencies. In the early 1980s, for example, the conventional wisdom was that a "soft landing" from the inflationary excesses of the 1970s was impossible: We were headed for either a deflationary collapse or a hyperinflationary blowoff. But Browne, although he had been one of the original goldbugs at a time when gold was widely scorned, got seriously interested in the possibility of a soft landing, and with it the prospects for equities in general.

By contrast, a good number of Browne's fellow goldbugs failed to make the transition from a bull market in gold to a bull market in stocks. They and their subscribers suffered greatly.

Browne of course is not the only adviser worried about the financial system. But many of them also believe that what we face is a sharp contraction and then good times. Charles Allmon, editor of *Growth Stock Outlook*, for one, envisages a near-term drop to as low as 1000 on the Dow, but then "the best buying opportunity you may see for the remainder of this century." Browne's pessimism is more pervasive.

Browne's comments on the future are offered with important but subtle qualifications, which will certainly be ignored by impatient investors and jumpy journalists. He's not saying a financial collapse must happen. When he entertained the possibility of a soft landing, for example, it was not only because he believed it well might occur; it also was because very few other analysts were doing so. He is at his best in playing the devil's advocate with the investment consensus. If the conventional wisdom at the time had been more optimistic, Browne could have been reminding us that things might not turn out so rosily.

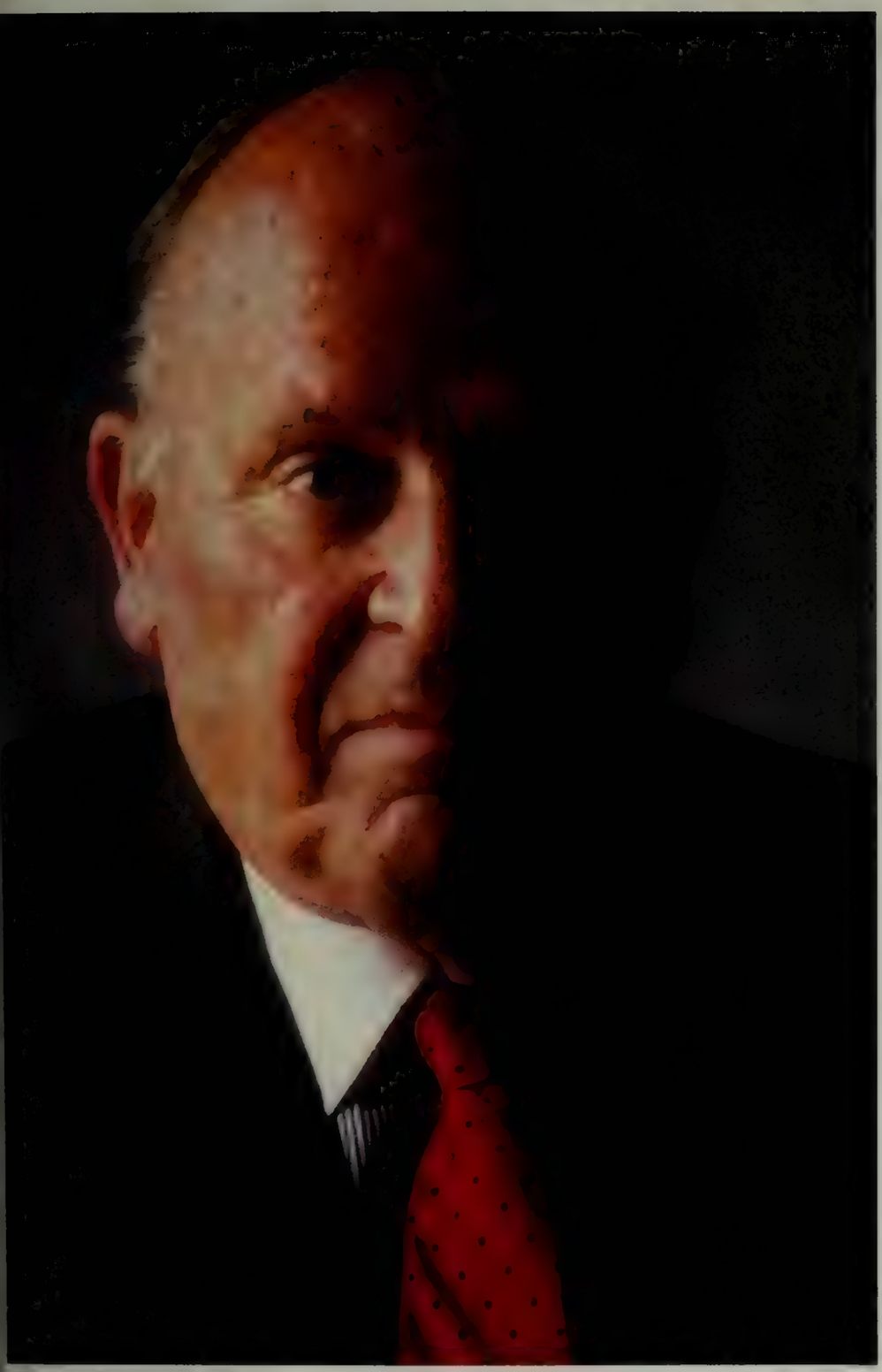
Browne's investment advice is tailored to his fundamental belief in the future's uncertainty. His new book, like his newsletter and previous books, recommends that your nonspeculative assets be invested in a "permanent portfolio" diversified among cash, bonds, stocks and precious metals. At least one of these categories should do well regardless of what comes to pass.

So when Browne likens our economy to a time bomb, he is not arguing that we sell everything and purchase investments that will do well only in a collapse. Rather, he is urging us to reorient our portfolios so that we won't lose everything if an economic collapse does occur. Nor does he advocate going to the opposite extreme, getting into a position where we could lose everything if a collapse somehow could be averted.

I am naturally reluctant to abandon my umpire's role. But I must say I am worried about Browne's scenario. On the other hand, I was also worried in the early 1980s. And I do respect politicians' ingenuity at keeping things rolling along.

But Browne's book won't have been a failure if the economic time bomb is defused. It is valuable as an antidote to the investment gurus who claim they can consistently predict the future—and as a warning not to bet all or nothing on predictions that can prove false. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*



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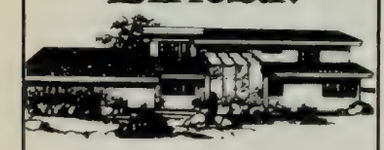

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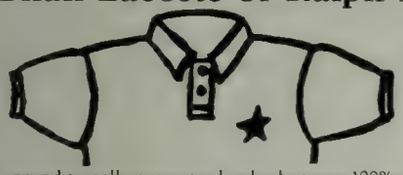

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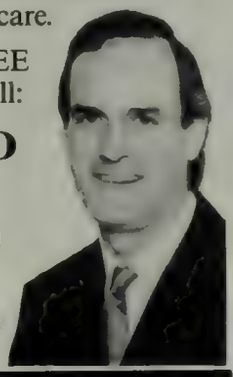

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Tandy is dandy

Last year $3.8 billion (sales) Tandy Corp., which operates Radio Shack electronics stores, bought Grid Systems, which sells its own laptop computers as well as desktop computers made by others to government and large corporate customers. The Fort Worth, Tex.-based company has also begun to produce personal computers for DEC and Matsushita's Panasonic division.

Each move, says analyst Bruce Missett of Salomon Brothers, increases his interest in Tandy. Radio Shack has lately been hurt by a slowdown in sales of the low-end, $1,000-or-less computers that Tandy itself manufactures. The Grid buy and the decision to source for DEC and Matsushita show Tandy is moving into the higher end of the personal computer market. Meanwhile, Tandy's even remodeling its 4,800-odd company-owned Radio Shacks (the chain's 2,200 other stores are franchisees) to better emphasize personal computers and other high-technology items such as cellular phones and compact disc players.

Although Missett estimates earnings for the current fiscal year, ending June 30, will be up just 9%, to $3.85 a share, he thinks fiscal 1990 will be far stronger—perhaps as strong as $4.60 a share. Factored into those estimates are Tandy's plans to buy back 10 million, or 11%, of its 89.9 million outstanding shares. With the stock at a recent Big Board price of 43¼, this would cost Tandy $430 million or so. But Missett says the share-repurchase program can be easily financed from cash flow. Besides, long-term debt, at $180 million, accounts for less than 10% of total capital.

From time to time, rumormongers paint Tandy as an attractive target, perhaps to some foreign electronics giant looking for distribution channels in the U.S. Streetwalker cannot confirm the rumors, but does note that insiders own a mere 5%.

Great, Scott

In the early Eighties Emhart Corp. was plodding along, sales stuck at about $1.7 billion a year, income stalled around $80 million. But in 1985 earnings at the Farmington, Conn.-based conglomerate fell 30% as demand plummeted for high-cost, U.S.-produced electronics components and shoemaking machinery, two of Emhart's main businesses.

Enter Peter Scott, 61, who became chief executive in December 1985. For six years Scott had learned about restructuring at United Technologies, as the number two man behind Harry Gray. At Emhart, Scott promptly dumped 20 businesses, including shoe machinery and packaging equipment, that had generated some $400 million in annual revenues. At the same time, he spent nearly $800 million. Some of the money went to revamping existing high-margined consumer goods businesses like Kwikset locks; some of it went for acquisitions that ranged from True Temper lawn and garden tools and Price Pfister plumbing fixtures to sophisticated computer software technology. Meanwhile, Scott's pruning has strengthened such moneymakers as glass containers and the commercial hardware and fastener lines. More reliable than ever, these divisions now account for 54% of sales and 59% of operating profits.

Joseph Kugielsky

Peter Scott of Emhart
From turnaround to takeover?

The figures are beginning to reflect the turnaround. Last year Emhart netted $127 million, double 1985's results, on sales of $2.8 billion. Earnings per share were up 16%, to $2.02. Expect more increases.

Great, Scott. The trouble is, his handiwork may now end up costing him his company. Insiders own only 2% of the 62.2 million outstanding shares. The stock—at a recent NYSE price of 28¾—is up 21% since January on heavy volume. Yet it still sells for 12 times the $2.25 a share that analyst Alvin Donius of New York's Altman Brenner Wasserman estimates Emhart will earn this year. Furthermore, Donius pegs the company's breakup value at $42 a share, a 50% premium to market.—**Kerry Hannon**

Out of the tank

Founded in 1918 mainly as a manufacturer of gasoline pumps, Fort Wayne, Ind.-based Tokheim Corp. now designs and produces an array of electronic petroleum marketing systems, service station equipment, point-of-sales control systems, credit card transaction registers, tank monitoring devices, and more. Good business to be in, says analyst Mark Degenhart of New York's Argus Research Corp. In years to come $203 million (sales) Tokheim should benefit handsomely from the impact of various trends on the gasoline dispensing industry. These include the increased use of bank-type debit cards at pumps, intensified environmental regulations, and the blending of different gasolines to offer a variety of octane levels.

Tokheim's sales and profits, agree Degenhart, have been erratic. In 1986 earnings fell by nearly half as the firm failed to update an aging product line. Recovery followed, but for the fiscal year that ended Nov. 30, 1988 earnings from operations again dropped—a 20% decline, to $1.36 a share.

Lately the culprit has been lower-than-expected sales, as prospective customers delayed purchases in order to review further the Environmental Protection Agency's new preliminary regulations, released in September, regarding underground storage tanks. These involve proper installation, leak detection, overfill and spill containment devices.

The good news, says Degenhart, is that these new EPA regulations will ultimately be a windfall for Tokheim because the firm has equipment and

ystems designed for just such purposes. He expects sales in the current ear to increase 21%, to $245 million, nd looks for a 58% earnings gain, to 2.15 a share. Although the stock—cent NYSE price of 22¼—is up 17% nce January, it still sells for ten mes anticipated earnings—reasonble, says the analyst, given Tokeim's growth prospects. There are 4 million shares; insiders own 3%.

ullish on Berrie

Russ Berrie & Co., Inc. is dusting itself off. Named for its founder nd chairman, Russell Berrie, the 285 million (estimated 1988 sales) rm designs and markets impulse ftware: stuffed animals, porcelain olls, photo frames, mugs with mesges, and dozens of other items that ormally cost $1 to $20 and are sold card shops, drugstores, even milary post exchanges.

Between 1984 and 1987 the Oaknd, N.J.-based company registered 5%-plus compound earnings growth. he NYSE-listed stock more than tried and reached an alltime high of 5¾ during the summer of 1987. But ime the crash and the shares fell to 7½. Today they still languish at 20.

This is not without cause. Russ Bere's important Plush 'n Stuff line tuffed animals, puppets and soft oliday decorations, all accounting r some 35% of sales) is meeting iffer competition in a saturated martplace. Meanwhile, in order to reve slackening sales, the company is recently made a number of small quisitions: a Canadian distributor, a ain of giftware stores, a greeting rd manufacturer, and a marketer of cial stationery and back-to-school ems. But building up these operaons has meant higher expenses, cutg into profits. Earnings last year ere off an estimated 16%, to $1.95 a are, according to John Walthausen Albany's First Albany Corp.

But Walthausen is impressed by the ct that even during last year's deine the company's gross margins reained high. And Russ Berrie contins to introduce successful new prodts such as its Personally Yours tchen magnets. The analyst also es expenses slowing for the acired businesses and looks for earngs to recover to $2.40 a share this ar. The balance sheet includes virally no debt and $58 million (nearly a share) of cash. Potential acquirers ease note: Russell Berrie owns 54% the 15 million shares.

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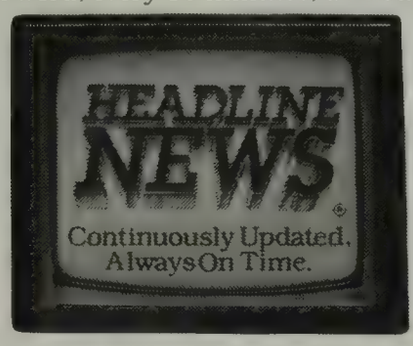

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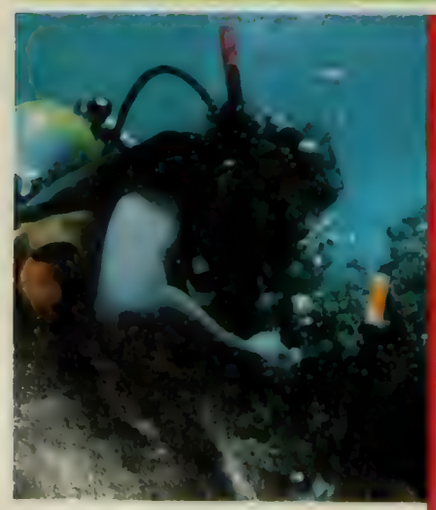

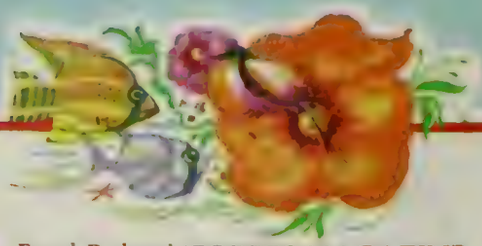

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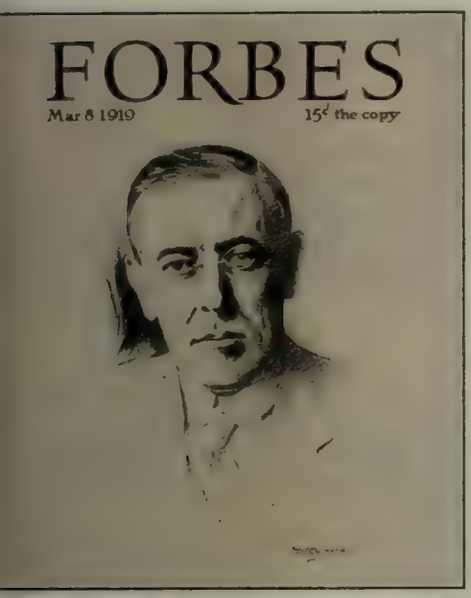
Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES


FORBES
Mar 8 1919
15¢ the copy

President Woodrow Wilson, as drawn by founder B.C. Forbes' brother Wilson

Seventy years ago in FORBES

(From the issue of March 8, 1919)

"**Some senators** are seeing mares' nests. They see in the draft of the League of Nations things that are not visible to the ordinary eye. They see—rather they profess to see—specters lurking between its lines. European hobgoblins are to swallow up America if she doesn't watch out. The senators see, not an outline for a League of Nations, but a Machiavellian League against America."

"**Write New York State down** as progressive. The Senate at Albany has appointed a woman as State Industrial Commissioner. The salary is $8,000 a year. Miss Frances E. Perkins will probably earn it, and more. Women have become so indispensable a part of our industrial fabric that this appointment is entirely appropriate."

Sixty years ago

(From the issue of March 1, 1929)

"**At last** a businessman has been elected chief executive of 'the largest business organization in the world.' What is this likely to mean to the U.S. during the years lying immediately ahead? No man can accomplish miracles, but Herbert Hoover can be counted upon to do more for the strengthening, the solidifying, the upbuilding, the expansion and the prosperity of American business than any other President. . . ."

"**A successful** demonstration of the transmission of pictures and writing in facsimile by beam wireless from America to England was given by the Marconi company at the Somerton beam-receiving station in Somerset, England. The pictures and messages were sent from Rocky Point, L.I., and included a photograph of the Woolworth Building, New York, cartoons and a handwritten letter."

Fifty years ago

(From the issue of March 1, 1939)

"**Anthracite coal** is an industry which has been having [little] success in fighting bootleggers (unemployed miners who dig coal from company properties and truck it to nearby cities). In February, Superintendent George Jones of the Stevens Coal Co., Wilkes-Barre, Pa., told the convention of the American Institute of Mining & Metallurgical Engineers that since 1935 the production of bootleg anthracite has almost doubled. Bootleg output last year was more than 8 million tons (legitimate anthracite production: 42.5 million tons); the bootleg industry employed 23,000 men, at an average daily income of $2. . . ."

Twenty-five years ago

(From the issue of March 1, 1964)

"**Owens-Corning** is now up to its neck in the battle of the materials, where the old clear-cut lines between one market and another are fast breaking down. Fiberglass is going after markets long held by steel, by aluminum, by the synthetic fibers. There are now fiberglass auto bodies (Corvette), fiberglass draperies and bedspreads (Beta fibers), fiberglass insect screens, even one-piece fiberglass bathrooms."

"**For the first time** in more than a year, Britain's Conservatives display a faint hope that their cause in this year's election is not utterly lost. On my two previous brief visits in the past 12 months, I couldn't find a soul in all Londontown who would bet a farthing to a pound on the chances of another Conservative government victory. Last week, among many visited, I found three—a banker, a civil servant and a cockney-accented Little-Man-In-A-Pub—who said it was conceivable. . . ."

—Malcolm S. Forbes

Ten years ago

(From the issue of March 5, 1979)

"**The Forbes Dart Board Fund** is a product of some neat wrist-work by FORBES' editor-in-chief, publisher and editor. Almost 12 years ago these three gentlemen each tossed ten darts at a board on which was mounted the stock market page of the *New York Times*. They came up with a list of 28 stocks in each of which, in theory, they invested $1,000; where a merger eliminated a stock, they reinvested the proceeds in the acquiring company. No new stocks were bought. None was sold. Over these 12 years our fund has grown from $28,000 to $43,278.91 [or] 55%, which compares favorably with the S&P 500's 8.2% gain. . . ."

"**Public schools,** for the first time in U.S. history, are getting more of their money from state treasuries than from local school districts. During the current school year states will provide 47.4% of the funds, local districts 43.7%, and the federal government 8.8%. Two years ago, local districts supplied 52.7%. . . ."

Battle of the materials: Vinyl drainpipe challenges traditional iron or tile drains

Thoughts
on the Business of Life

The supreme happiness of life is the conviction of being loved for yourself, or more correctly, being loved in spite of yourself.
VICTOR HUGO

There is only one kind of love, but there are one thousand imitations.
LA ROCHEFOUCAULD

Love and friendship exclude each other.
JEAN DE LA BRUYÈRE

Marriage: The state or condition of a community consisting of a master, a mistress and two slaves, making in all, two.
AMBROSE BIERCE

Marriage has many pains, but celibacy has no pleasures.
SAMUEL JOHNSON

Love at first sight is easy to understand. It's when two people have been looking at each other for years that it becomes a miracle.
SAM LEVENSON

The porcupine, whom one must handle gloved, may be respected, but never loved.
ARTHUR GUITERMAN

There is only one thing better than making a new friend, and that is keeping an old one.
ELMER G. LETERMAN

What occasions the greater part of the world's quarrels? Simply this: Two minds meet and do not understand each other in time enough to prevent any shock of surprise at the conduct of either party.
JOHN KEATS

The way to make a true friend is to be one. Friendship implies loyalty, esteem, cordiality, sympathy, affection, readiness to aid, to help, to stick, to fight for, if need be. The real friend is he or she who can share all our sorrows and double our joys. Radiate friendship and it will return sevenfold.
B.C. FORBES

So live that your friends can defend you, but never have to.
ARNOLD GLASOW

Only those who respect the personality of others can be of real use to them.
ALBERT SCHWEITZER

Our most valuable possessions are those which can be shared without lessening those which, when shared, multiply.
WILLIAM H. DANFORTH

The only service a friend can really render is to keep up your courage by holding up to you a mirror in which you can see a noble image of yourself.
GEORGE BERNARD SHAW

Never have a friend that's poorer than yourself.
DOUGLAS JERROLD

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Make a better friend of every man with whom you come in contact.
HENRY L. DOHERTY

Politeness is an inexpensive way of making friends.
WILLIAM FEATHER

I want no men around me who have not the knack of making friends.
FRANK A. VANDERLIP

There is one element that is worth its weight in gold and that is loyalty. It will cover a multitude of weaknesses.
PHILIP ARMOUR

Perhaps love is the process of my leading you gently back to yourself.
ANTOINE DE SAINT-EXUPÉRY

A Text . . .

Know them which labor among you . . . esteem them very highly in love for their work's sake.
1 THESSALONIANS 5:12

Sent in by Ruth Conroy, Garden City, N.Y. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

The worst solitude is to be destitute of sincere friendship.
FRANCIS BACON

The great enemy of clear language is insincerity. When there is a gap between one's real and one's declared aims, one turns, as it were, instinctively to long words and exhausted idioms, like a cuttlefish squirting out ink.
GEORGE ORWELL

ES
March 20

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REPORT FROM THE PEOPLE'S REPUBLIC OF SANTA MONICA

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MARCH 20, 1989

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THE POWER IS ON

Forbes

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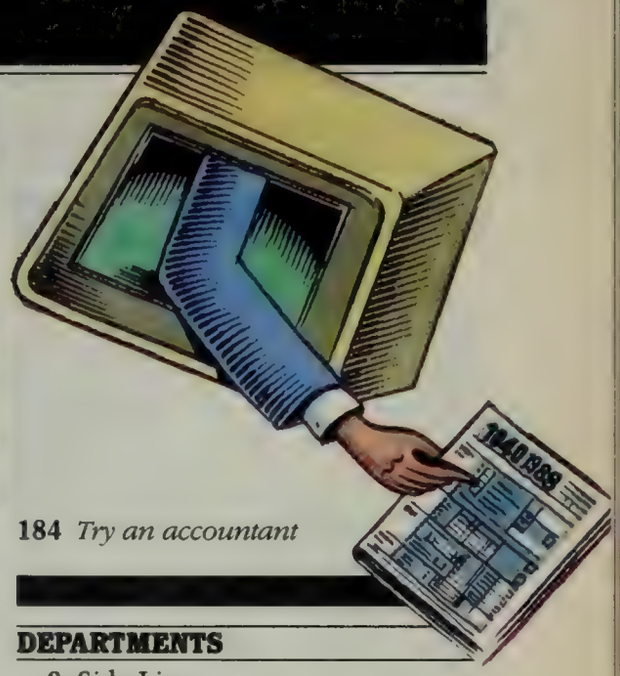

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Side Lines

Holy sacred cow!

Tax proposals, like companies, can be put in play. Such may be the case in Washington right now, FORBES suspects, with the home mortgage interest deduction.

A few cynics regard deducting mortgage interest to lower your income tax as nothing more than an entitlement program for the middle class. A far greater number of Americans, however, have come to regard it as an inalienable right. This majority had better think again. We detect signs—like the biblical "clouds no larger than a man's hand"—pointing to a change in attitude among lawmakers and lobbyists. Given the hectic pace of legislation these days, FORBES readers should know about these shifting winds sooner rather than later.

Patrick McDonnell

Associate Editor Laura Saunders checked out the story after noticing a decidedly unusual radio advertising campaign that the National Association of Realtors ran in the districts of 16 influential members of the House Ways & Means Committee early this year: A good old boy sings that owning your own home is the American dream come true. Enter a voice warning that Congress is threatening to cut the deduction and urging listeners to write their lawmakers. Odd, Saunders thought. The White House hadn't been heard from. The issue wasn't on any congressional agendas.

The ad infuriated several congressmen who were its targets. "This kind of thing just hasn't been done before," Saunders says, and so she looked into it. The NAR, she discovered, had good reason to take to the air to defend the mortgage interest deduction. "Nowadays," she says, "if you wait till a proposal actually hits the table and revenues are involved, the best you will get is a compromise." The story begins on page 119.

Animal lovers

A few extraordinarily aggressive acts—bomb threats, paint throwing—of a handful of fervent defenders of animal "rights" have received considerable coverage in the media lately. FORBES thinks the story has been overplayed and underanalyzed. How big is the movement? Far smaller than some scare reports have had it. How well financed? Far less handsomely than some business interests, who are their targets, fantasize.

How much of a threat do animal-rights zealots truly pose to businesses and business people? It's minimal, but all the fuss has had an understandably unnerving effect. For a better perspective, we recommend the story by Richard Behar that begins on page 43.

Sheldon Zalaznick

Managing Editor

The Power of Productivity.

Non-Farm Productivity Was Unchanged In 4th Quarter; Uneven Course Continues

Total business productivity, including farming, fell at an annual rate of 2.0 percent in the fourth quarter of 1988 because of a drop in farm productivity. Manufacturers reported a 3.2 percent increase in productivity last year, down from 3.4 percent in 1987, the Labor Department said.

In its final budget, the Reagan Administration forecast productivity increases of 1.2 percent in 1989, 1.8 percent in 1990, 2 percent in 1991 and 2.1 percent for each of the following three years. That forecast, adopted by President Bush's economic advisers, calls for average annual productivity gains of 1.9 percent for 1989-94.

But several economists said there was nothing in the 1988 productivity report to suggest that type of improvement would occur, particularly at a time of slow growth in the labor force.

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Follow-Through

Robert Grossman

General Eclectic

Mar. 23, 1987

In early 1987, armed with $2.3 billion in cash, General Electric looked ready to pounce. FORBES thought that the company would use its bulging war chest to expand into fast-growing high technology and finance sectors.

We were right that the company would do just that, but we missed by a mile with a laundry list of ten potential targets.

Instead of buying computer companies like NCR and Honeywell, GE got into specialty chemicals and medical equipment manufacturing. Instead of expanding further into the brokerage field, as we had predicted, GE got into another side of financial services by buying up several leasing and credit businesses.

Nor did we expect GE to add to its flock of six TV stations by buying WTVJ-TV in Miami, as it did, or to expand its appliance division by purchasing Roper's kitchen range manufacturing unit.

Overall, were the moves that GE did make smart ones? So far, Wall Street doesn't seem to think so. General Electric's stock, adjusted for a 2-for-1 split in May of 1987, is down 16% since our story, to around $46 per share. By comparison, the Standard & Poor's 500 is down 3% in the same period.—**Claire Poole**

Hopkins hurdle

Nov. 30, 1987

Steven Muller

A little over a year ago, FORBES was impressed by some financial moves by Johns Hopkins University and its president, Steven Muller. When Muller took charge in 1972, the university, which was founded in 1876, was in the hole. But by aggressively promoting Johns Hopkins' hospitals and medical and health schools to students and faculty as well as to the public, Muller was able to bring the Baltimore university back to solvency, and by late 1987, when our story appeared, the future looked bright indeed.

But Muller apparently wasn't the manager that we thought he was. Last month he resigned amidst severe financial troubles at the School of Arts & Sciences, which is running a $5 million deficit.

What happened? The school spent too much money on capital expenditures, including $30 million on a new physics and astronomy building, and too little time on fundraising to pay for everything.

To deal with that problem, Johns Hopkins will now be forced to dip into the university's new five-year, $27 million reserve fund, 74% of which comes from the School of Medicine. It will also have to raise $150 million in fresh capital. Meanwhile, the university has postponed construction of a new chemistry building, as well as other school renovations.—**C.P.**

Air Kleenex

Dec. 31, 1984

FORBES reported four years ago that, even after deregulation, many commuter airlines were still finding it tough going against giants like United and American.

One commuter line that we singled out for potential growth, however, was Midwest Express of Appleton, Wis. Midwest was flying 20% full at the time and running up $1 million in operating losses on $3 million in sales. But with the airline offering first-class service—including such amenities as white Bordeaux and chocolate mousse cake—on coach-priced seats, FORBES thought Midwest Express could prove a winner over the long term.

We were right. Thanks to appreciative business travelers, Midwest Express is doing well. Figures from the Department of Transportation show that the line is flying 66% full and that it earned a net income of $4.6 million on sales of $54 million for the year ended June 30, 1988.

With the help of a $120 million expansion bankrolled by its Kleenex-making parent, Kimberly-Clark, Midwest has 11 DC-9s flying to 15 cities, including Detroit, Philadelphia and Denver. In fact, Midwest Express is now the third-largest carrier flying out of its Milwaukee hub, right behind majors Northwest and American. And that's nothing to sneeze at.—**C.P.**

Kim Newton/Woodfin Camp

Hot air bags

May 30, 1988

William Mallender

Last May FORBES warned that it would be difficult for small and debt-ridden Talley Industries, Inc. (estimated 1988 sales, $360 million) to survive much longer in the air bag business, especially since regulations requiring passive restraint systems—either automatic seat belts or air bags—in new cars in the 1990s had brought more manufacturers crowding into a very small field.

We were right. Last month the company announced that it had signed a deal to sell its $20 million (revenues) air bag division to TRW, the world's largest supplier of passive restraint systems, for $85 million plus royalties on the technology for 12 years.

The sale is good for Talley. The company, a miniconglomerate with interests in a stainless steel mill, real estate and defense contracting, among other businesses, will receive a 12-year stream of royalties that will allow it to benefit from its technology without taking much risk. Meanwhile, Talley can use the proceeds of the sale to pay down short-term debt currently about $50 million. Wall Street has marked down Talley's shares by almost $2, to just over $13 since the announcement, suggesting that the market wants to see better performance from the rest of Talley's businesses before it gets too excited about the decision to sell the air bag division.—**Ronit Addis**

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It looks like we'r

The Accord LX 4-Door Sedan, as seen by other car ma

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being followed.

ems as if we've developed quite a following. HONDA

Forbes Informer

Edited by Gretchen Morgenson

Do deficits matter?

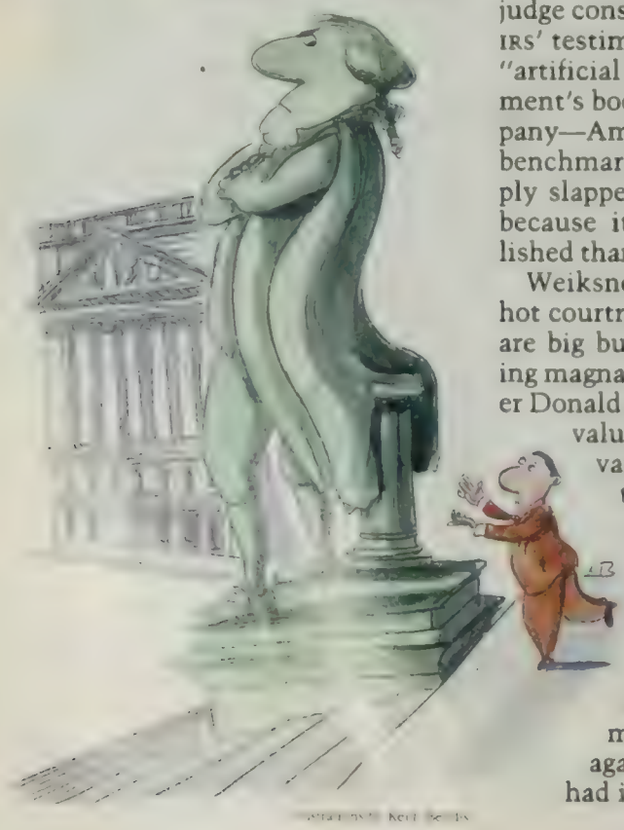
The notion that government deficits don't much matter is gaining currency these days. But Chrysler Chairman Lee Iacocca isn't buying any of it and neither, says he, is Japanese Prime Minister Takeshita.

Iacocca recently met with Takeshita in Japan and reports: "He told me: 'Get your damn deficit down, or we're going to start asking for more points when we come to the Tuesday auctions. We're not going to keep funding your consumer binge, so you've got to get something done on the deficit.' " Thus spake Takeshita, as told to Iacocca.

Rudy's money woes

Rudolph Giuliani, who hung up his crimebuster cloak to ponder a run for mayor of New York City, may soon find out that what goes around comes around. Giuliani's rival in the Republican primary would be cosmetics scion Ronald Lauder, a man said to be willing to finance his campaign with $10 million of his own loose change. Faced with Lauder's spendthrift candidacy, Giuliani is said to be a wee bit concerned about his own fundraising abilities.

The problem might just be Wall Street, usually a happy hunting ground for Republican fundraisers.



Trouble is, of course, that Rudy's bagged some big game there himself. The former prosecutor can hardly expect massive contributions from investment houses Kidder, Peabody and Goldman, Sachs, where Giuliani staged his famous handcuff-the-bankers drama. And it's unlikely that he can squeeze any more dough out of Drexel, considering that it just agreed to hand $650 million over to Uncle Sam. Key to Giuliani's success may be his choice as chief fundraiser. Stay tuned.—**Eric Schmuckler**

Tax court hero

At last, an investment banker worth his fee. George Weiksner, 44, a managing director at First Boston, just saved $200 million for the Hall Family Foundation, the estate of the founder of Hallmark Cards. How? By winning an expert testimony war in a federal tax case in Kansas City.

The IRS claimed that privately held Hallmark stock sold to company employees for $135 million after founder Hall's death was really worth more than $300 million. The government trotted out its expert witness, Lynn McCrary, a vice president at a Philadelphia commercial bank, to testify about a proper valuation. The higher value would have produced a tax bill and penalty of some $200 million.

But it was Weiksner's testimony the judge considered "most reliable." The IRS' testimony, the judge sniffed, was "artificial and excessive." The government's boo-boo? It used just one company—American Greetings—as a benchmark for its valuation and simply slapped a premium on Hallmark because it's bigger and more established than American Greetings.

Weiksner's win could make him a hot courtroom property. Tax disputes are big business these days. Publishing magnate S.I. Newhouse and brother Donald are battling the IRS over the valuation of privately held Advance Publications' stock they inherited when their father died ten years ago. According to the Newhouses, taxes due ought not to exceed $47 million. The IRS says it's owed $914 million. Observers suspect the government has a better case against the Newhouses than it had in Kansas City.

Old wine, new bottle

What the world doesn't need is another stock tout. But no matter: Now comes the *New York Times* wine critic suggesting that if you can't afford a bottle of Château Lafite-Rothschild, you ought instead to buy stock in a little o-t-c number that holds an interest in the Rothschild vineyard.

Name of the company is Chalone Inc., of San Francisco, which last month swapped 6% of its own stock for an equal amount in Domaines Barons de Rothschild. Chalone's main business is extracting table wines from less pedigreed California grapes.

But a share in Chalone doesn't come cheap. At $14 each, they're trading at a princely 78 times earnings. Better to buy a 1985 Château Lafite. At $95 a bottle, that's the value play.

Cheese wiz

First World Cheese, Inc. of South Orange, N.J. traded as low as 3⅛ a unit last year. This year the units fetch $18 each, or 38 times 1988 estimated earnings. Not so shabby for a three year-old concern.

What's given First World its punch? Company sales more than doubled, to $72 million last year, but more significant, it's an easy sell for brokers. Here's the rap: Though the $15 billion cheese biz is stagnant, "nutritional cheese," the low-sodium, lower-fat stuff First World sells, is a $400 million market growing at an estimated 40% a year. To health-conscious consumers, First World's ersatz offerings are a natural.

Trouble is, the company's stock has more air in it than the most holey Swiss cheese. For starters, investors may not realize that First World simply markets, rather than manufactures, cheese. The company doesn't own a single recipe for its products

the manufacturer that does own title to First World's biggest brand, Pré-Monde Alpine Lace, is under contract to produce it only until next year. If the "nutritional" cheese market continues to grow, as First World enthusiasts predict, isn't it likely that industry heavyweights—the likes of Kraft, Dorman and Land O' Lakes—will muscle the upstart out of its small space in the deli case?

Talk of a takeover in First World's future helps explain the stock's rise. But it doesn't add up. Who'd want to take over a fledgling company that simply markets a collection of cheeses, has big-name competitors and little clout in the supermarket? The same folks paying 38 times earnings for this cheesy number, perhaps?

First and last

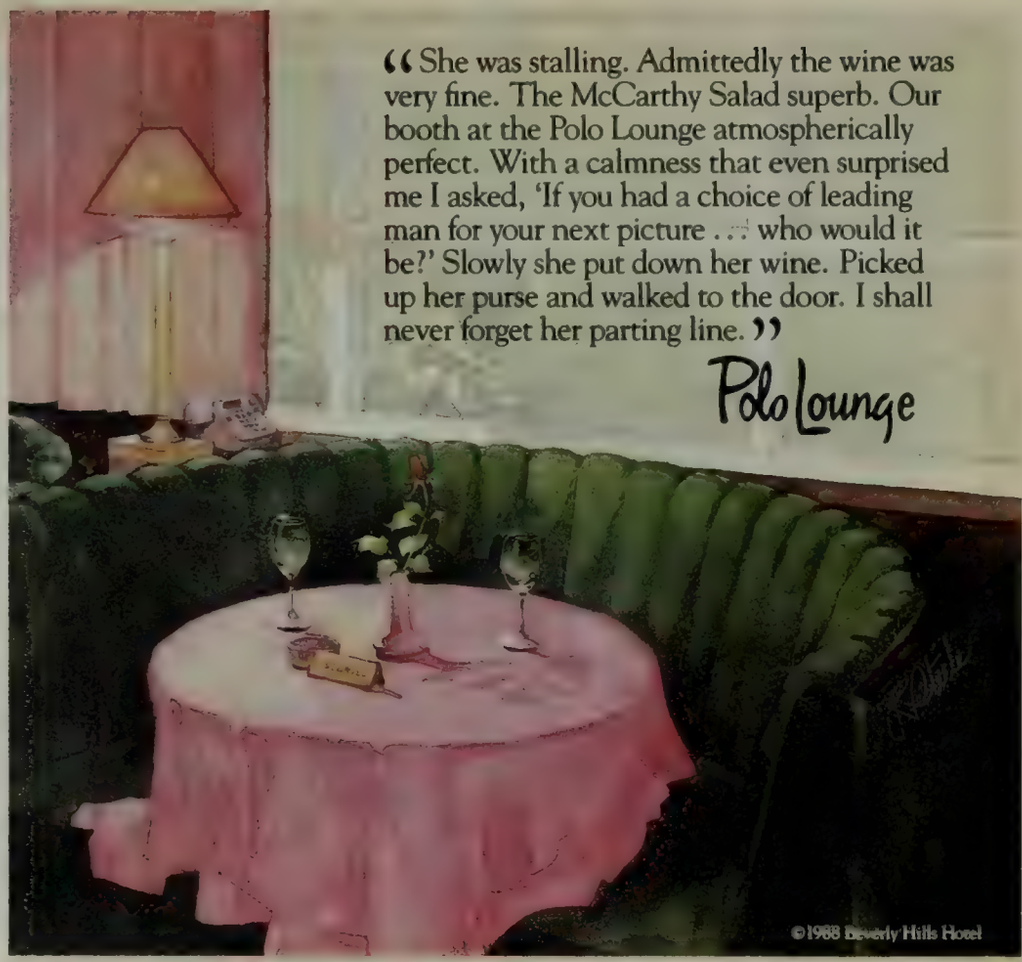
Sooner Federal Savings & Loan Association in Tulsa saw its stock fall from 16⅜ to 1 in recent months and may be facing insolvency, but hey, all's not lost. Later this month the beleaguered S&L will accept "first place medal of honor" at the Financial Institutions Marketing Association's annual marketing conference. Sooner's advertising campaigns were singled out as evidence of excellence. Alas, lending practices won Sooner another race: the one to the bottom.

Toying with Lionel

Last fall a group headed by New York investor Robert Toussie took a position in toy retailer Lionel Corp. Now the investors' stake amounts to almost 10%. Toussie's group has made friendly overtures to the company, offering to keep present management in place if an acquisition happened. But Lionel executives are having none of it, so the Toussie group angrily announced last month that it may launch a hostile tender offer. The stock climbed from around 6 to 7 on the news.

Toussie's group includes Dress Barn founder Elliott Jaffe, retailer Leon Atkind of NBO fame and crafty old Milton Petrie of Petrie Stores, who has long held a stake in Toys "R" Us. That's a serious crew with more than enough bucks to launch a bid. Can we talk numbers? As Charles LaLoggia, who puts out *Special Situation Report*, notes, the group mentioned a premium to Lionel's historic high price, which would mean the $10-to-$11-a-share range. With 13.5 million shares out, that's a $150 million deal.

Lionel's executives seem to think that, if ignored, the bullying raiders will go away. But that's no game to play with big boys like these.—E.S.



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**IRA Reporter, January 13 1989.*

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Readers Say

Extra, extra

SIR: With regard to your article on newspapers, "Citizen Kane meets Adam Smith" *(Feb. 20)*: While it may be true that weekly newspapers have generally "kept pace with the growth in households," it should be noted that they have often done so by delivering their products free of charge.
—Jack Hines
General Advertising Manager,
The Kansas City Star
Kansas City, Mo.

SIR: It's easy to blame problems with newspapers on factors beyond their control. But this just isn't the whole story. The more accurate explanation is that newspapers have simply not done an adequate job of keeping up with many of the dramatic changes in the composition and lifestyles of our nation.
—Christopher F. Bonney
Virginia Beach, Va.

SIR: Your penetration analysis compares the city of St. Petersburg in 1983 to the entire newspaper designated market in 1988 (acorns compared with watermelons).
—Robert W. Althaus
Circulation Director,
St. Petersburg Times
St. Petersburg, Fla.

SIR: We have a saying in radio: "Hear it now! See it tonight! Read it tomorrow!" Another reason newspaper business is off.
—H. Randolph Holder
President,
Clarke Broadcasting Corp.
Athens, Ga.

Pride and prejudice

SIR: I have to take issue with your article "Unloosing Demons" *(Feb. 6)*. Many of those who can be labeled as "Russian nationalists" are simply trying to protect the environment and to preserve their culture and their history—just like the other 100 nationalities in the Soviet Union who are being Sovietized. Of all the groups that Ms. Berman could have written about, she chose Vasilyev's faction of Pamyat (which is the most radical and abhorrent of all movements) and then extrapolates their characteristics to the rest of the Russian population, ignoring Russians such as Andrei Sakharov who raise their voices in defense of all ethnic groups.
—Eugenia Ordynsky
Executive Director,
Congress of Russian-Americans
Washington, D.C.

Wealth and freedom

SIR: Re Michael Novak's column "The Mind-Centered System" *(Feb. 6)*. It seems that college students are not receiving a well-rounded economic education. How many times have I heard lately, "The rich get richer and the poor get poorer," as if one were the result of the other? The simple truth is that wealth is created, not taken, and newly created wealth is known as profit.

The accumulation of wealth by individuals, far from harming anyone, is critical for the health of our economy. It is from this wealth that new enterprises arise and existing enterprises are expanded.
—Fred Eidson
Lakewood, Colo.

SIR: Michael Novak does not have it right! The essence of capitalism is political freedom, not creativity. Political freedom is a prerequisite for creativity and innovation.
—Laurence M. Parks
President,
Computer Science Capital Corp.
New York, N.Y.

Phillips Curve folly

SIR: Re Fact & Comment *(Feb. 6)*. There's at least one currently accepted notion that's worse than Alan Greenspan's jacking up interest rates to fight inflation: that low unemployment is inflationary. What can be more inflationary than sending unemployment checks to people who are not producing goods and services?
—Robert N. Sillars Jr.
Stamford, Conn.

Fair deal

SIR: I take issue with the item "One LBO too many" *(Forbes Informer, Feb. 6)*. When TLC Group and Mr. Lewis sold most of their interests in the McCall Pattern Co. to John Crowther Group Plc., the company was healthy, financially sound and well managed.

FORBES says Crowther overpaid for McCall. You should know that McCall was sold in a broad public

auction that attracted several bidders.
—Rene S. Meily
Director of Communications,
TLC Group, L.P.
New York, N.Y.

Wish you were here

SIR: Re Fact and Comment *(Feb. 20)*. Only 90 U.N. officials will verify the Cuban withdrawal of over 60,000 troops from Angola. The Brazilian general heading the U.N. team says he will know that the Cubans have departed "when they tell us there are no more troops." The U.S. is supposed to pay one-third of the U.N. team's $20 million cost. A postcard will suffice.
—Andrew Eiseman
Englewood, Colo.

SIR: Your support of U.N. peacekeeping operations is crucial, and while our supply of powder may be small, we are working hard to ignite it on Capitol Hill.
—Samuel L. Brookfield
President,
Business Council for the United Nations
New York, N.Y.

Close call

SIR: Your review of *The Duchess of Windsor (Fact and Comment, Feb. 20)* is simplistic. If the Duke hadn't been the son of the Queen, the Windsors would have been hanged for treason.
—Eunice Nudelman
Williamsville, N.Y.

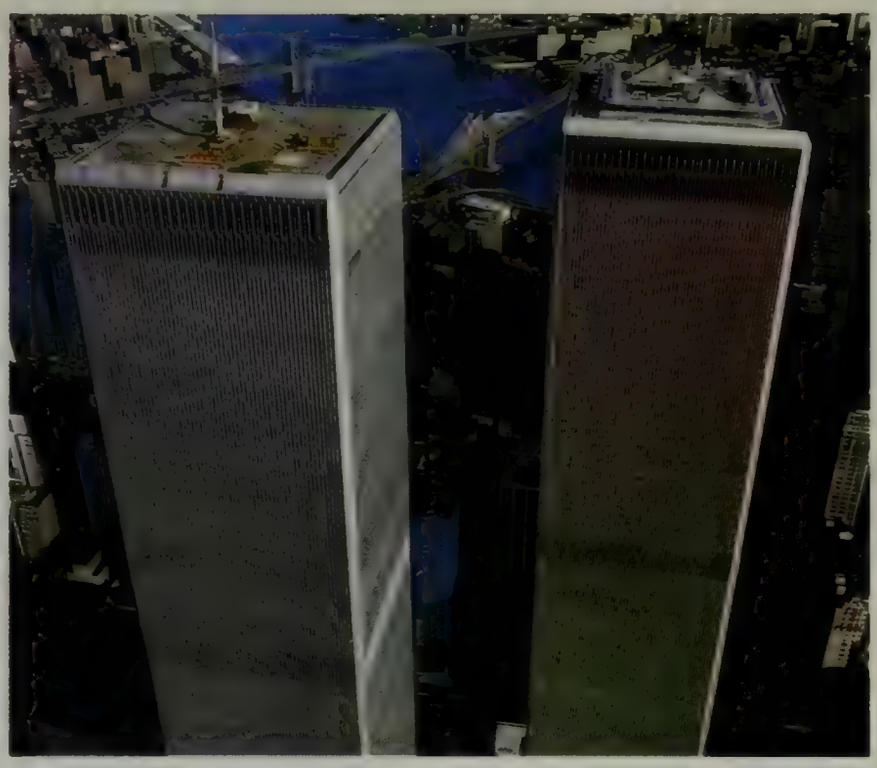
Secret of success

SIR: While Edison slept only four hours a day *(Fact and Comment, Feb. 20)*, he was accustomed to taking catnaps during the other twenty.
—Louis D. Sacks
West Orange, N.J.

SIR: Perhaps for Einstein, genius was 1% perspiration and 99% inspiration.
—Gary Schulte
Los Angeles, Calif.

Transparency

SIR: Re: "The money has already been borrowed" *(Feb. 20)*. No government in the history of mankind has ever paid for anything. You could do better by replacing the word government with taxpayer when talking about money the government spends.
—David Aitken
Denver, Colo.



Low-rises. 2060 A.D.

Hi-Tech. 2060 A.D.

Will today's hi-rises be the low-rises of tomorrow? That remains to be seen. But Samsung audio products will surely be high on everyone's list.

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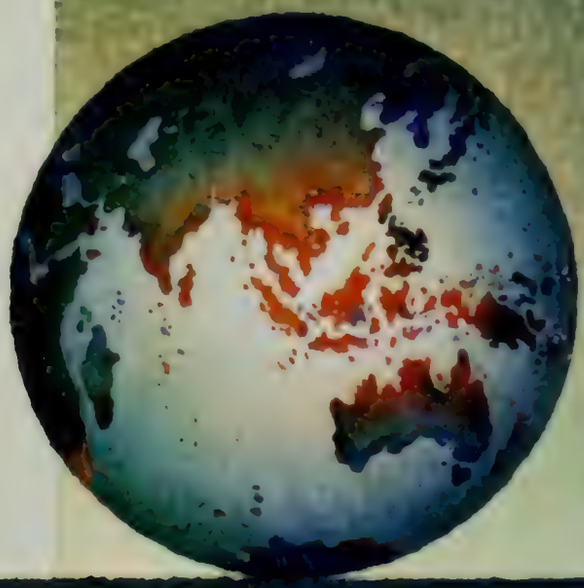

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Fact and Comment

By Malcolm S. Forbes, Editor-in-Chief

ANYBODY SELLING U.S. PLANEMAKERS SHORT

is short of common sense. Sure, military spending won't multiply, will be stretched out. But the demand for new commercial airplanes in this country and all over the world is mammoth, and it will take striving, driving managerial ingenuity to begin meeting that demand in the next few years.

As we dramatically—painfully—know, vast numbers of airline aircraft are flying beyond their allotted span. For the airlines and for us, new craft are not an option. They are a first essential and, with every passing day, more so.

Short-sellers of Boeing, McDonnell Douglas, Lockheed, Grumman, General Electric, United Technologies, General Dynamics, Rockwell International, Raytheon and other related suppliers better take shelter.

IMF NEEDS MORE DOUGH AND, IF JAPAN ANTES UP

the biggest chunk of it, of course its vote share goes up proportionately.

The International Monetary Fund sorely needs a 50% rise in its present $117 billion funding to play its key part in vital lending to Third World development financing.

Some fear that budget pressures will keep the U.S. from kicking in our share of such increased funding and that, as a result, Japan will gain greater IMF voting power. So they aver that more money isn't needed.

That specious argument won't wash. We may not want to remember that old adage, but those who pay the piper still influence what tune is called.

WHAT'S GOING TO SAVE US FROM BEING WASTED BY WASTE?

When—not if, but *when*—the cost of disposing of garbage at home and at work doubles and redoubles during this year and the next and the one after, our horrendous waste disposal problem will begin coming under control.

Remember how soon and at what vast costs we coped with the OPEC-ed world energy crisis?

When you come home from the supermarket and discover that the cost of getting rid of the containers begins to equal the cost of what's in them, households and every place of business will quickly find ways and means of reducing the garbage. Between reusing and recycling, for sure there will be less garbage.

Area incinerators will be multiplying; "lined" landfill spaces will be multiplying.

There ain't no magic pill for getting rid of garbage before it gets rid of us.

There are solutions—at immense costs.

The towering costs will cause them to happen.

FEDERAL JUDGE SLAPS DOWN PERVERSION OF RICO

Three cheers for Federal Judge Jack Weinstein.

He forcefully, intelligently, clearly slapped down the bullying, rights-depriving, scarifying, perverted use of the Racketeer Influenced and Corrupt Organizations Act—a mighty useful law intended to gang up on racketeers who corruptly organized themselves to shake down legitimate businesses. Prosecutors in every kind of case all over the place have been terrorizing almost every other kind of defendant except the organized racketeering crime shakedowners at whom RICO was aimed.

Said the judge in his manifesto against the criminal abuse of a law aimed at criminal racketeers:

"The 'major purpose' of the RICO statute was to help block the criminal predations of organized crime upon legitimate businesses. With almost no legislative debate or comment, it was extended as an afterthought to civil cases to encourage private suits as a supplement to the efforts of Federal law-enforcement agencies.

"No case, no language of the statute and no Congressional finding has demonstrated that Congress and the President intended to overturn all Federal doctrine and jurisprudence in federalizing the law of torts under RICO.

"Civil RICO cases provide dangers to defendants in some respects even greater than do criminal cases. In criminal cases, proof beyond a reasonable doubt is required. In civil cases, a preponderance of the evidence suffices. Before a criminal RICO case can be brought, there must be an indictment by a grand jury and specific permission must be obtained from the Department of Justice, which has strict internal guidelines governing the prosecution of RICO actions.

"There is no inhibition on the commencement of civil RICO action except limits on the imagination of counsel. Here [in the civil racketeering case against the Long Island Lighting Co.] the nature of the charges are such that it is almost inconceivable that a RICO prosecution would have been authorized or survived a motion to dismiss without trial. Because of the extreme dangers of overreaching in civil cases, care must be taken to insure that the RICO statute is not extended beyond the reach envisaged by Congress."

THE WHIMSY OF GENIUS—OR SHOULD IT BE THE GENIUS OF WHIMSY?

If you've not yet seen AT&T's strikingly handsome headquarters on New York's Madison Avenue, give it a gander the next time you're here. Architect Philip Johnson created this imposing tower and topped it off with a massive pediment that caused some of us to liken the structure to a highboy bureau. In a moment of inspiration, *New Yorker* cover artist Kathy Osborn Young has shown a most apt use for AT&T's rooftop cradle.

RESTAURANTS—GO, CONSIDER, STOP

● **La Grenouille**—3 East 52nd St. (Tel: 752-1495). This one of FORBES' tiny handful of Four Star restaurants is as superlative as ever because Mrs. Masson and sons Charles and Philippe continue to give this wonderfully civilized dining oasis their all.

● **Claire**—156 Seventh Ave., near 20th St. (Tel: 255-1955). If conch and Cajun and West Indies tropical are your things, this moderately priced potpourri could be your bag.

● **Bice**—7 East 54th St. (Tel: 688-1999). Only *The Phantom of the Opera* is equally box-office boffo. The Italian dishes are exuberantly flavorful, and the crowd's the most alive in town. Even the captains have the spirit, pitching in to do busboy stuff when the going gets too heavy. If you haven't been and can, go.

● **Periyali**—35 West 20th St. (Tel: 463-7890). If you're into Greek food, it's great in this attractive restaurant.

● **La Caravelle**—33 West 55th St. (Tel: 586-4252). After years among the summiters, La Caravelle slipped down the slope. Happily now it's back up again, but its more limited menu keeps it from its former Four Stars. Fellow sweet-toothers shouldn't miss the lemon mint soufflé [illegible] lace sauce.

● **[illegible]**—281 Church St. (Tel: 334-1888). Almost a [illegible] t some of the mostly super pasta combos don't [illegible] rk. Unfortunately, everything on the menu's in Italian so that the waiter has to translate it all. By the time he's finished, you've forgotten much and you're too compassionate to ask for repeats. Worthwhile trying so you can come to your own conclusion.

● **L'Escale**—43 East 20th St. (Tel: 477-1180). Our most exciting "discovery" this year. Here's a modest, moderate French bistro that's Two Stars verging on Three. I think you, too, will love it.

● **Aureole**—34 East 61st St. (Tel: 319-1660). Spar klingly new and—mostly—very good. There are hits and misses in the sometimes overly innovative main dishes But you'll never taste anything better than the potato pancakes that sandwich sea scallops, afloat in a thin spread of citrus-juiced olive oil. Irresistible, lethal desserts. Ex footballer, ex-*River-Café* chef, 29-year-old Charles Palme is quarterbacking what could become a real winner.

● **Beau Geste**—320 Amsterdam Ave., at 75th St. (Tel 724-2222). In an area that isn't, the intentions/pretension are *haute*, but service, menu and wine list are not.

● **Trattoria Dell'Arte**—900 Seventh Ave., near 57th St. (Tel: 245-9800). In a gustfully happy setting that feature giant plastered human bits and pieces like ears, eyes, lip and noses, you are served colorful, zesty dishes that appea to all the same anatomical parts that you and I carry around Innovative pastas, scrumptious, paper-thin-crusted pizzas

LETTING DOCTORS TREAT NOW-DOOMED AIDS VICTIMS

with unproven drugs that give some signs of aiding is a hearteningly wise move on the part of the molasses-slow Food & Drug Administration.

NOW I KNOW WHY "ROSEANNE" IS SUCH A HIT

Rob Brown/Onyx

Everyone who writes about TV has been bubbling over about *Roseanne* as the new season's hottest hit. Aside from news, occasional specials and sport spectaculars, I don't see too much TV and so my first exposure to this hilariously for-real lady was Barbara Walters' interview with her.

I laughed till I hurt and, at a couple of poignant moments when she had tears in her eyes, I hurt for her. At one point, as she choked back her emotions, she said to Barbara, "Maybe if I'd pick my nose they would take the camera off me." She's so warmly real it's beyond reality. When commenting about the by-products of her TV success, she observed, "Now, when people come to clean my house, I can't stop thinking about all the times I went to clean other people's houses."

If you want to bring something wonderful into your life, bring Roseanne.

WE'VE GOT NEWS FOR BEAN COUNTERS

That is, those who may be counting jelly beans out because Reagan is.

Jelly Belly jelly beans, which President Reagan put on the map by putting 'em on the Cabinet table, are as delicious now as they were the day he first did it.

And those of us who love 'em are no fewer now, and love them no less because the progenitor of their sales boom now lives in L.A. instead of D.C.

IF YOU'RE BURNED UP

don't just smolder.

EITHER GET INTO IT

or get out.

BOOKS

● **Warhol**—by Christopher Makos (New American Library, $22.95). Andy Warhol described his close friend for the last 14 years of his life, Christopher Makos, as "the most modern photographer in America." In this picture-bio containing 150 remarkable photos never before seen, Andy Warhol in all his facets comes alive again.

● **This Boy's Life**—by Tobias Wolff (Atlantic Monthly Press, $18.95). I sure hope one of the most god-awful stepfathers a youngster could have is still around to read this engrossingly candid memoir of a most difficult trip to maturity.

Excerpts: *The subject of bicycles turned [my mother and me] into enemies. Our problem was that I wanted a bike and she didn't have enough money to buy me one. She had no money at all. She had explained this to me many times. I understood perfectly, but not having a bike seemed too hard a thing to bear in silence. . . . [My mother's and my] room was in a converted attic. It had two camp beds and between them, under the window, a desk and chair. It smelled of mildew. The yellow wallpaper was new but badly hung and already curling at the edges. It was the kind of room that B-movie detectives wake up in, bound and gagged, after they've been slipped a Mickey. . . . My mother told me she could still change her mind. She could keep her job and find another place to live. I understood, didn't I, that it wasn't too late? I said I did, but I didn't. I had come to feel that all of this was fated, that I was bound to accept as my home a place I did not feel at home in, and to take as my father a man who was offended by my existence and would never stop questioning my right to it. Somehow it was her telling me it wasn't too late that made me believe, past all doubt, that it was. Those words still sound to me less like a hope than an epitaph, the last lie we tell before hurling ourselves over the brink. . . . I kept outgrowing my shoes, two pairs in the seventh grade alone. Dwight was indignant. He thought I was growing out of malice.*

● **In the Mountains of Japan**—by Sam Hunter & David Finn (Abbeville Press, $65). In the dramatic mountains of Japan, communications tycoon Nobutaka Shikanai has created two open-air gardens of sculpture that include massive masterworks by sculpting's most famed, as well as imaginative works of less familiar artists. This lushly colorful volume of superb photographs includes a history and illuminating analysis of modern sculpture by brilliant Princeton professor Sam Hunter.

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"The warranty? Ford and Chrysler have warranties."

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"Sure, but..."

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"Whew. Next thing you know..."

"Yes?"

"You'll switch from loafers to wing tips."

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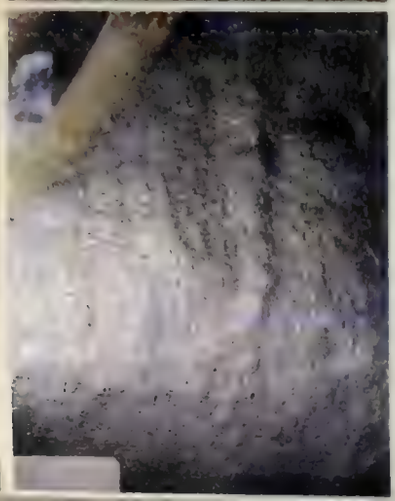

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†See your Chevrolet dealer for terms of this limited warranty.

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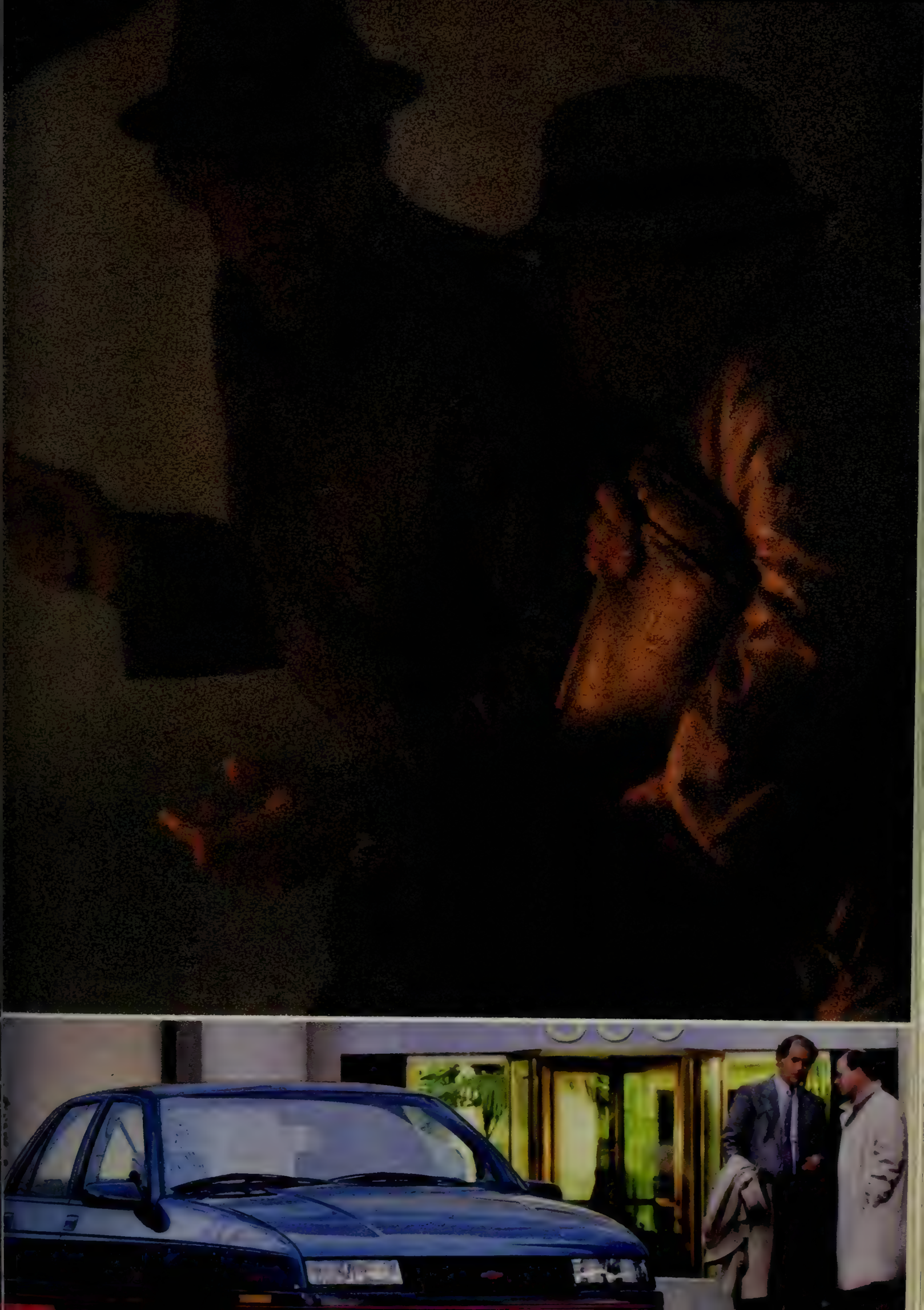
Let's get it together... buckle up.



Other Comments

Often comments by others stimulate, irritate, abuse or amuse this editor's mind.–MSF

Fit over Shoes

Nike has a television commercial for hiking shoes that was shot in Kenya using Samburu tribesmen. The camera closes in on the one tribesman who speaks, in native Maa. As he speaks, the Nike slogan, "Just do it," appears on the screen.

Lee Cronk, an anthropologist at the University of Cincinnati, says the Kenyan is really saying: "I don't want these. Give me big shoes." Says Nike's Elizabeth Dolan, "We thought nobody in America would know what he said."

—*New York Times*

Ready for Reform

Back in 1969, when law 'n' order was a sexy issue, we all had this great idea: Congress would pass and the President would sign a law making it a crime for mobsters to take over legitimate businesses. Thus was born the Racketeer Influenced and Corrupt Organizations Act—RICO. Two decades later, we are dealing with a legal monstrosity. Politically ambitious prosecutors, ignoring Justice Department guidelines, have been making themselves famous by misapplying RICO to targets that have nothing to do with organized crime.

Over a thousand lawsuits against companies—in no way mobster-related—include a "RICO clause" to terrorize the target and elicit a settlement in lieu of treble damages. "Instead of being used against mobsters and organized criminals," wrote the Supreme Court three years ago, "it has become a tool for everyday fraud cases. This defect—if defect it is—is inherent in the statute as written, and its correction must lie with Congress."

—William Safire, *New York Times*

Cigar vs. Wife

"A woman is only a woman, but a good cigar is a smoke" wrote Rudyard Kipling. Ernest Hemingway reexperienced loves from the past behind the smoke of his Coronas, while Groucho Marx took a different stance. When his wife asked him to give up cigars he replied: "No, but we can remain good friends."

George Sand took a more philosophical view: "The cigar numbs sorrow and fills the solitary hours with a million gracious images."

—*World Magazine*

Kill This Deal?

Under an agreement, General Dynamics will become a subcontractor to Mitsubishi Heavy Industries Ltd. and turn over all of its technology for the F-16, one of the most successful planes the U.S. has ever built. General Dynamics says the technology is old, but the Tokyo view is that the agreement will finally give Japan the basis it needs to start a full-fledged aircraft industry by the mid-1990s.

Former U.S. trade negotiator Clyde V. Prestowitz estimates we will be giving Japan some $7 billion worth of airplane technology and getting back less than $500 million in subcontracting work. That's the kind of shortsightedness that let the U.S. give Japan the technology for everything from VCRs to semiconductors. It's time to call a halt, and there's still time.

—*Business Week* editorial

I don't believe that restaurant critics can kill a bad restaurant. Bad food kills a bad restaurant.

—Bryan Miller, in *The Wine Spectator*

Ditto!

When Mrs. Bush plans a state dinner, "I told Nancy [Reagan], and this is true, I'm going to say to the White House staff, 'Ditto. Just do what she did.' It's perfect," said Mrs. Bush.

—*New York Post*

Not Worth the Trouble

I was a thief. By my own estimation, a master thief. When I cruised the aisles of dime stores, lingering over jackknives and model cars, a bland expression on my face, looking more innocent than an innocent person has any business looking, I imagined that the saleswomen who sometimes glanced over at me saw an earnest young shopper instead of a transparent little klepto. And when I finally managed to steal something I figured I was getting away with it because I was so sharp, and not because these women had been on their feet all day and were too tired to deal with a shoplifter and the trouble he would cause them: his false outrage, then his terror, his weeping, the triumphant descent of the manager, policemen, paperwork, the hollowness they would feel when it was over.

—*This Boy's Life*, by Tobias Wolf

Afterglow

"I was in the drawing-room, enjoying my dinner," said Brillat-Savarin beginning an anecdote. "What!" interrupted Rochebriant, "eating dinner in a drawing-room?" "I must beg you to observe, monsieur," explained the great gastronome, "that I did not say I was eating my dinner, but enjoying it I had dined an hour before."

—Ambrose Bierce
The Devil's Dictionary

Drawing by Weber, © The New Yorker Magazine, Inc.

"Combination No. 5—no MSG."

AS SOON AS THE BAe800 ARRIVES, WE'LL BEGIN OUR COMPARISON.

On the ramp, the Citation III.

And arriving eventually, our worthy ather tardy competitor, the BAe800.

Both are fine aircraft. And if you're the market for a midsize business jet, ese are the two you'll probably wind up mparing.

The makers of the BAe800 would prefer limit that comparison to only a couple of as. But the only meaningful comparison, believe, is one that tells the entire story:

e Citation III is faster. Much faster.

It climbs to altitude faster, reaches cruise ed faster, then stays miles ahead of the e800. Saving you time on every trip.

If your average trip length is 600 nautical les, and you fly the Citation 500 hours r year, you'd have to spend at least 29 extra urs in the 800 to fly the same distance.

e Citation III flies higher.

Cruising at 47,000 feet, it's more than ile above the BAe800. And almost erything else — including most weather. certified to fly as high as 51,000 ft.

e Citation III is more efficient.

The Citation III uses less fuel. Period.

On a typical 600-mile mission, the e800 burns about 300 lbs. more fuel. t arrives five minutes later.

On a 2,000-mile trip, the gap is even re dramatic. The BAe800 consumes half a ton more fuel than the Citation III — and still lags behind.

The Citation III is more advanced.

The Citation III began as a totally new design, not a rehash of an old one. It is a far more advanced aircraft. Certified to the same rigorous standards as the Boeing 767.

The Citation III is more comfortable.

Our new cabin interior offers even greater comfort than before. More head and shoulder room in a new custom-tailored seat. It's quieter than the BAe800's cabin. And our cabin altitude is much lower, too.

Much of the BAe800's "larger" cabin is devoted to baggage — while the Citation's heated, external compartment easily accommodates two station wagon loads of baggage.

In actual living space, the two aircraft are virtually the same. But the Citation has much more *usable* space. The 800 is 4 in. wider, but the Citation's seating area is 3 ft. longer. Another clear Citation advantage.

The BAe800 has a little more range. But...

The range of the Citation III is 2,300 nautical miles. More than enough to handle 98% of the trips business jets ever take.

The range of the BAe800 is 2,600 n.m. Generally enough to fly nonstop New York to Los Angeles. But there's a catch.

In order to fly that far, the 800 is forced to cruise even slower than normal. At a speed 60 knots behind the Citation III.

Say the Citation III and the BAe800 begin that New York-to-L.A. trip at the same time, against strong headwinds. Remarkably, the Citation can make a leisurely stop midway, and still land in L.A. first.

Both aircraft routinely fly the return trip nonstop. And of course, the Citation gets to New York sooner.

The Citation III costs less.

Comparably equipped, the BAe800 costs over $1,000,000 more. Annual operating costs are also substantially higher.

So in any comparison of the Citation III and the BAe800, there's actually very little contest. The Citation delivers greater speed, greater efficiency, greater comfort, and more advanced technology — all for a lot less money.

And Cessna backs it up with the world's only company-owned service center network.

That's why more businesses fly Citation IIIs than any other model of midsize business jet.

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Fact and Comment II

By M.S. Forbes Jr., Deputy Editor-in-Chief

AMERICA'S LOOMING SHORTAGE

A monumental announcement last month was greeted with a yawn: The Census Bureau projects that sometime in the next century the U.S. will lose population. Not since the closing of the frontier nearly 100 years ago has there been news that could so fundamentally affect the character of this country.

> CENSUS PREDICTS POPULATION DROP IN NEXT CENTURY
>
> 300 MILLION PEAK FOR U.S.
>
> Analysts Are in Disagreement Over the Consequences for the Nation's Economy
>
> — *New York Times*

Population growth and our political liberties have fueled our progress. They have enabled us to become the mightiest nation on earth, a powerful example of what a free country can do, and a powerful protector of the Free World.

Too many of us are oblivious today of how important an expanding population is to our future. We have been overly influenced by nonsensical notions that more people means more pollution, that the nation and the world would be infinitely cleaner and richer if there were fewer of us on it.

When governments stifle people's natural economic energies, people are indeed a burden. When free, however, we become producers. The U.S. and the West have demonstrated that population growth is a handmaiden of progress.

Can we have a growing economy with an aging, declining population? Yes, but it won't be nearly as vibrant, strong and rich.

Younger people are usually more energetic, more eager to take risks. America's openness to innovation, even when disruptive to established segments of the economy, has been a critical catalyst of our progress.

Michael Nelson/FPG

If today's mothers were as fertile as their mothers, the U.S. would have had 8 million births last year instead of 3.8 million.

Imagine what the world would be like today if the U.S. had a population the size of Australia's. Would we and the rest of the world be as prosperous—or as free? Demographic expert Ben Wattenberg puts it well: "A nation shrinking in numbers is not likely to be in global ascendency."

People fear population growth for fallacious reasons.

• **Pollution.** Man has always fouled his nest. But man invents technology that can reduce pollution overall. We have less dirty air today than we did a generation ago. We have less disease. Longevity continues to go up.

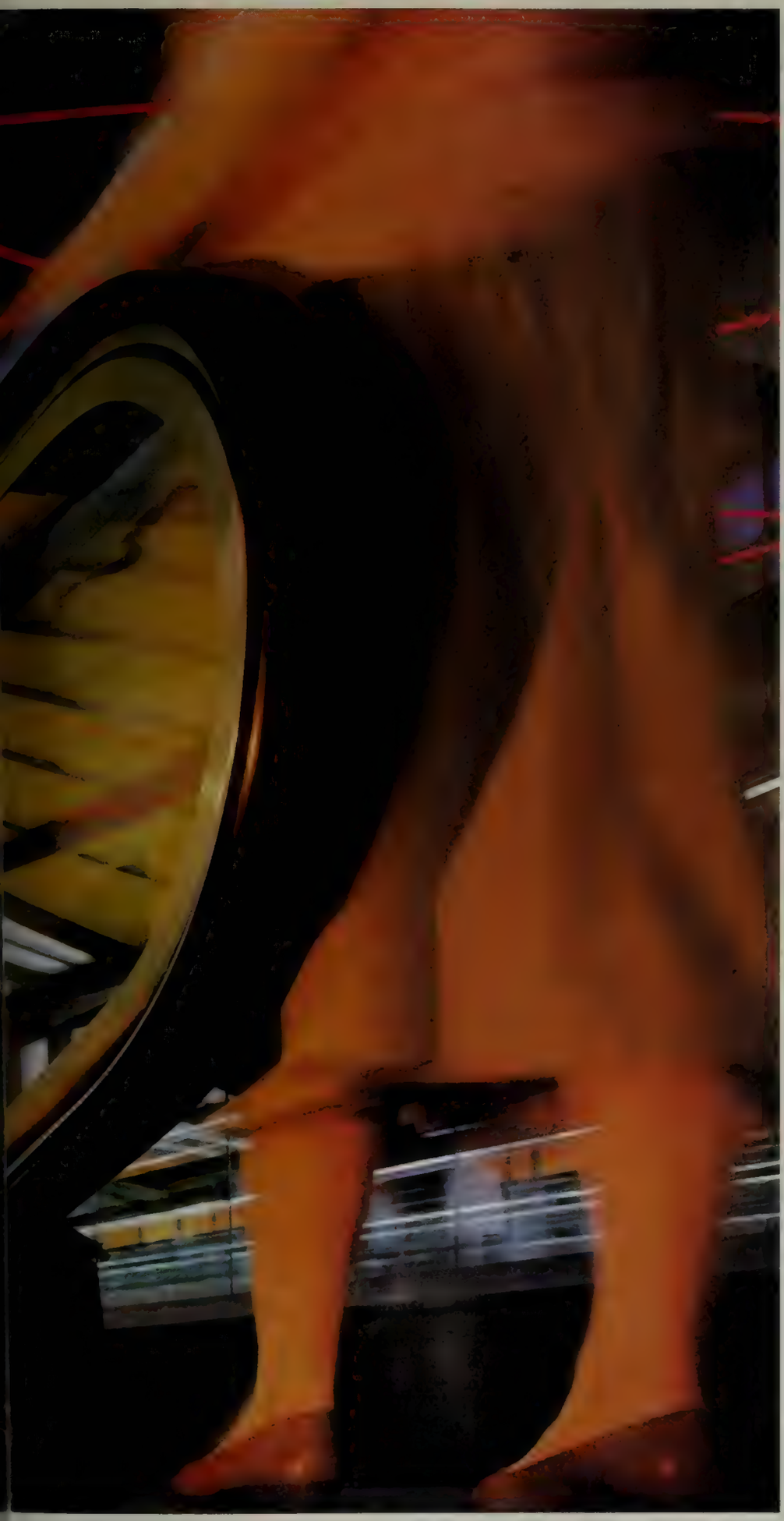
• **Overcrowding.** If all the people from China and India lived in the continental U.S. (excluding Alaska), this country would still have a smaller population density than England, Holland or Belgium.

• **More mouths mean less for everyone else.** Not true in a free society. One of the most crowded pieces of real estate on the earth today is Hong Kong; for more than 25 years those resourceless specks of land have had one of the globe's highest economic growth rates. Wealth is created by man's ingenuity and sweat. It is not a fixed amount.

How can we change the current population trend? First, make Americans aware of the implications of not doing so. Second, sharply reduce the high tax burden on parents who wish to have more children. The exemption per child is now $2,000. It should be $10,000 or higher and would have been $7,000 if it had kept up with inflation and growth of incomes over the past 40 years. Third, increase immigration. The U.S. receives about 500,000 legal aliens a year. We could easily absorb two to three times that number. Unlike just about any other nation on earth, the U.S. can assimilate people from widely different backgrounds.

The payoff would be immediate. If it wasn't for immigration, for example, we would truly be lagging in technological innovation. Look at our top research laboratories: Between one-fourth and one-half of their Ph.D.s are foreigners. Study after study shows that immigrants create jobs. They're usually young and hardworking. They're more apt to start new businesses than homegrown Americans. Look at Southern California—fast-growing population, fast-growing economy.

Should we try to reverse the trend in population decline? If we want a future as inspiring as our past, the answer is unequivocally yes.



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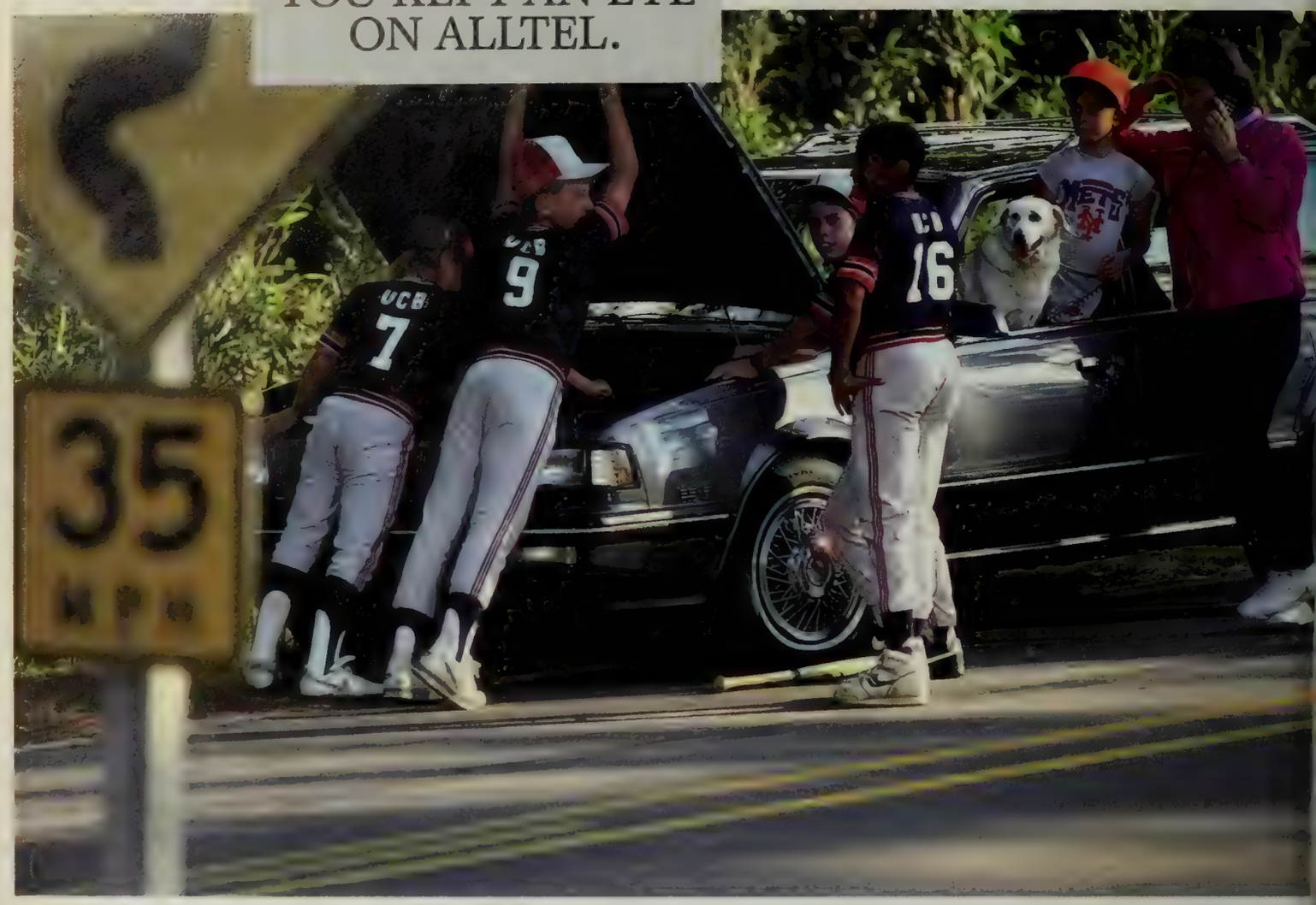

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Reported	
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*From Operations**	
Net Income	$134 million
Earnings Per Share	$3.13
Dividend Rate	$1.72
Average Common Shares Outstanding	42.3 million

*Excludes One-Time Adjustments

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Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

JAPAN BASHING BASHES THE UNITED STATES

Senators and congressmen who specialize in continued strong criticism of Japan are now approaching the ultimate in wrongheadedness and muddled thinking. They are doing their best to stop a defense agreement between the U.S. and Japan that offers not only vastly increased Japanese self-defense capability but a real opportunity for us to improve both our balance of trade with Japan and our technological capabilities in aviation electronics and avionics.

Briefly, the agreement, which was accepted in 1987 by Japan's defense minister and prime minister over the strongly stated objections of Japanese industry, commits the Japanese to develop an improved version of the American F-16 fighter plane instead of designing its own new plane. They will modify and equip the plane—the FSX—with some of their own very advanced technology, which for the first time will become available to us.

The Japanese aircraft industry wanted to build its own fighter plane from the ground up. The government decided that it was not necessary to spend the vast sums required to design a new aircraft of equal or possibly lesser capability.

As a result of the agreement, General Dynamics and other U.S.contractors will handle about $500 million of the development share paid by Japan, plus much more in the future, for helping to build the modified plane. We have tried since 1981 to persuade the Japanese to share some of their technology with us, and this agreement represents a major advance in that direction.

Why would anyone oppose such an agreement?

Sadly, there are a number of senators and congressmen who feel that because we have some trade disputes with Japan, some justified and some not, we should "retaliate" at every opportunity. Usually, this thoughtless opposition seeks to stop our military help because the Japanese will not do what we wish them to do regarding trade.

But our military relationship with Japan is not a one-sided agreement benefiting only Japan. Our security as well as theirs is greatly helped by the presence of American troops, planes and ships there. It would be foolish and dangerous to weaken the military alliance we have simply because we have some justified trade disputes with Japan.

Opponents also claim the Japanese will gain access to our avionics technology. But the Japanese have the F-15, an equally or more sophisticated aircraft, now and have had it for many years. In fact, they help produce it in Japan.

If these perennial Japan critics succeed in persuading the Administration that we should not go ahead with the completed agreement on the FSX, they will accomplish two things—both very bad for the U.S.

For one thing, they will block a large Japanese purchase of American goods and services and instead see Japan deploy a less capable aircraft against the Soviet threat, to the detriment of mutual security interests.

For another, all our friends would be very hesitant to sign agreements with the U.S., even though such agreements could provide us with thousands of jobs and billions in payrolls and new revenue for our treasury.

The extent to which the public is being misled by incorrect accounts of this whole transaction was shown most vividly in two of the sillier editorials that the *New York Times* has run in some time. Both condemn the Japanese for refusing to buy U.S. aircraft "off the shelf."

The *Times* argues that it would be far better for Japan just to buy the F-16, and that it would be available now, not in the "many years it will take to develop the FSX." The *Times* fails to point out that in those same years the Japanese will be using billions of dollars in production funds to buy two U.S. aircraft and the U.S. Aegis air defense system "off the shelf," and to produce their portions of the F-15 and our antisubmarine aircraft, the P3C. The Japanese may also buy AWACS, aerial tankers and other U.S. equipment "off the shelf" in the early 1990s as General Dynamics and other U.S. and Japanese companies complete the development of the enhanced F-16. Finally, the Japanese, not the *New York Times*, must determine what is best for Japan.

The most amusing error in the editorials is the argument that the agreement will help the Japanese build their own civil aviation industry. The *Times* has apparently forgotten that it has often argued there is no spillover of technology from the military to the civilian sector.

Japan bashing may be considered both good fun and good politics by some, but it goes a bit too far when the country that really gets "bashed" is the U.S.

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What's Ahead for Business

Edited by Howard Banks

GATT—ALMOST BACK ON TRACK

The dream of ending farm subsidies is over

COMPROMISE TO SMOOTH OVER THE FARM ROW between the U.S. and Europeans seems certain when the midterm review of the General Agreement on Tariffs & Trade (GATT) resumes in Geneva in April.

That's fortunate, given the rising importance of trade to the world economy. The GATT secretariat estimates that trade grew 8.5% in volume in 1988 and, driven up a bit by inflation and a somewhat weaker dollar, by 14% in value. The improvement is greater than even optimists anticipated. It also embraces industrialized LDCs, says GATT, and "lacks signs of widespread inflationary overheating."

The fight over farming subsidies threatened to derail negotiations for a new Uruguay round when the midterm review began in Montreal last December. U.S. demand for a firm commitment that all farm subsidies would eventually end (an impossible dream, including here in the U.S.) is now being moderated to a requirement "to ratchet subsidies down" over time (much easier to fudge, and therefore agree to).

The most difficult issue remains intellectual property

OVERSHADOWED BY THE FARM FUSS IN MONTREAL was genuine progress on a wide variety of trade issues, headed by services. Hard negotiations on this remain. The U.S. Treasury, for one, abhors letting anybody else set rules for U.S. banking. And nobody knows how to use GATT to cover transportation, which today is mostly subject to a multitude of bilateral government agreements.

Tariffs were also settled in Montreal, with cuts averaging 35% to 40% to come, but also accommodating U.S. wishes for larger cuts on specific items where tariffs are still high.

Until the farm fight, even textiles negotiations were going well. (The problem here is how to integrate the multifiber arrangement and other forms of protection with GATT.) And tropical products, mostly small-volume horticulture but vital to LDCs, was settled, too.

The hard nut still to be cracked in Geneva concerns protection of intellectual property. The U.S. is unyielding on its demand for a single world standard. But Third World countries, led by India and Brazil, resist, fearing that upping patent protection on drugs from 7 years to 20 years might drive prices up for their people.

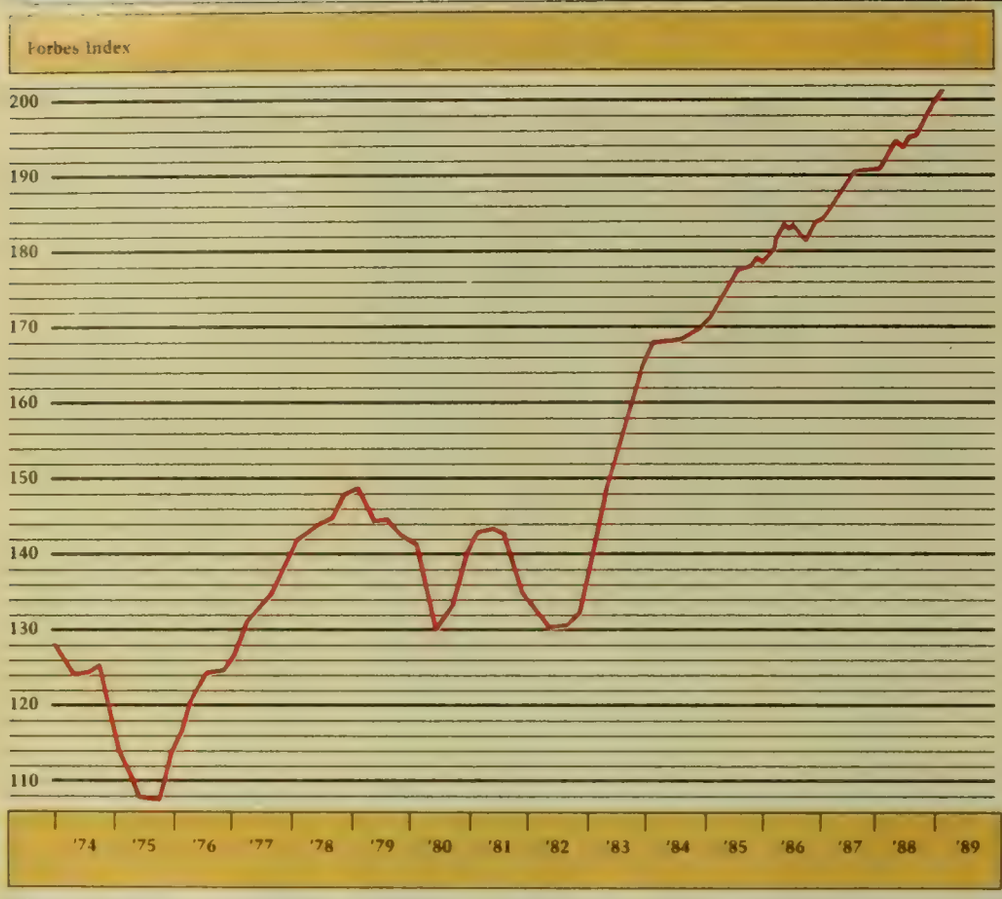
GATT's compliance rules can be a two-edged sword

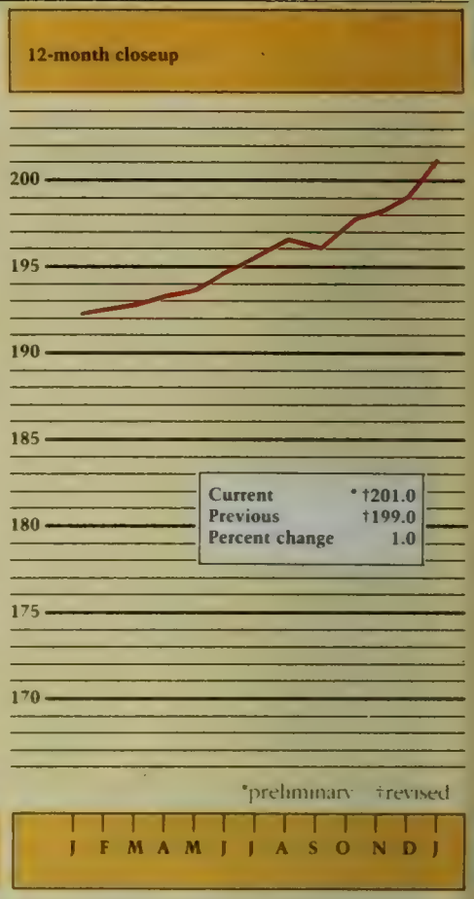
PERHAPS THE MOST SIGNIFICANT ACHIEVEMENTS, though little noticed, are agreement that new GATT teams will review individual country compliance with the trade rules (much as IMF teams review economic performance), and a new, and tough, disputes procedure.

This disputes procedure is, as the U.S. is finding out, a double-edged sword. Already a panel has found that the 1986 Trade Act passed by Congress breaches GATT where it discriminates against foreign companies when dealing with complaints over patents.

Compliance with GATT rules (which the U.S. has been keen to see strengthened) requires amending U.S. trade law. But unless the rest of the world agrees to significant movement on intellectual property, as one insider says, Congress will blow GATT a raspberry.

The Forbes Index



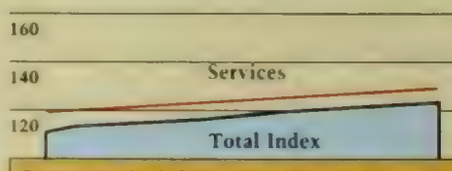


The economy is expanding rapidly, perhaps too rapidly. The Consumer Price Index jumped 0.5% in January before seasonal adjustment, the biggest rise since August. It was caused by significant increases in the cost of building materials, general merchandise, food and medicine. The index' services component rose 0.6%. In response to these inflationary signs, the Federal Reserve raised the discount rate (the loan rate it charges member banks) to 7%. Retail sales were up 0.6% in January, with virtually all of the rise attributed to higher prices rather than higher unit sales. A cold January did not prevent new housing starts from registering a 27.5% increase over January 1988.

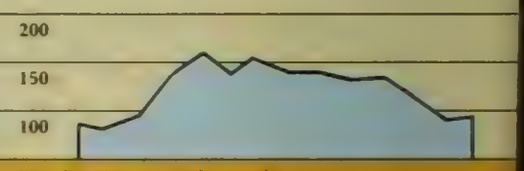
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

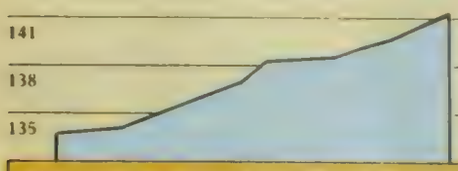
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



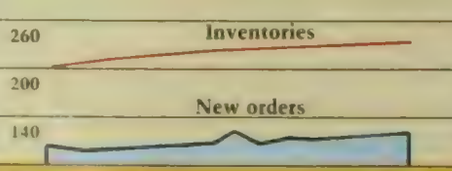
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)



New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)

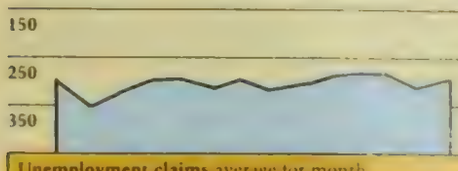


Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

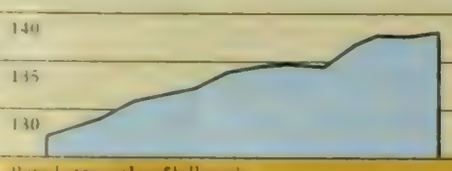


Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

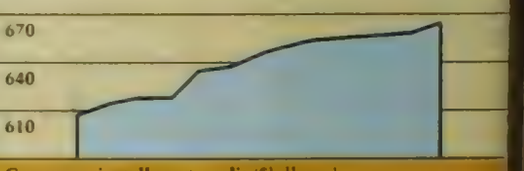
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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The New Generation of OLDSMOBILE

In the Old World's mature, affluent and booming markets, Ford and General Motors are finally raking in record profits.

Detroit's Euro-boom

By John Marcom Jr.

LAST YEAR Ford Motor Co. earned a record $1.6 billion in Western Europe, roughly triple what it earned in the region in 1986. The $1.8 billion General Motors earned in Europe, also a record, was more than GM earned in the U.S. and was a far cry from the $2.2 billion it lost in Europe between 1980 and 1986.

Detroit's European performance highlights a couple of points often lost in the debate about U.S. competitiveness. Point one: The Pacific Century isn't quite here. Point two: Europe isn't yet washed up.

The score can't be measured in the trade figures. With the devalued dollar making them cheaper, exports of U.S.-built cars did grow somewhat last year. But almost all the GM and Ford cars sold in Europe are made there—just like IBM's computers, Kellogg's breakfast cereals and Procter & Gamble's detergents.

Gerry Mooney

Today both Ford and GM are reaping the benefits of strong Continentwide manufacturing networks, something they caught on to long before the current push for a unified European market in 1992. Both Ford and GM concentrate their small-car production in lower-cost Spain, while performing much engineering and design work in higher-tech West Germany.

Ford built its first European factory in 1911 in Britain, where the familiar blue oval badge adorns one in four new cars sold. GM was firmly established by 1930. The painful slump in the early 1980s spurred both companies to make the most of their geographical spread. By last year Ford was able to shift some production from the U.K. to Germany to offset the effects of a stronger pound. Says Sanjay Dabysing, who follows the industry for DRI Europe Ltd., "They move things around as it suits them."

Their European-owned rivals, in contrast, still produce mostly in their home country, although Volkswagen is building a Spanish base. VW and Fiat lead in European sales, each grab-

bing just under 15% of the market. France's Peugeot, now gaining strength outside its home market, accounts for about 13%, followed by Ford and then GM at around 11% apiece. Renault, with about 10%, rounds out the big six. Adding to the competition, famous luxury exports like Jaguar and BMW also sell well at home.

As new Ford and GM models came into production, both companies gave up a bit of market share last year. But not to worry. Nomura Securities auto analyst John Lawson reckons the pair earned 10%-plus pretax profit margins in Europe, fatter than any major rival. "Ford and GM have decided 10% or 11% of the market is fine," says Lawson. "They have decided not to be hugely aggressive."

The beauty of such a robust market is that no one has to be overly aggressive. Following 10% volume growth in 1986 and 6% growth in 1987, total European sales rose another 5% last year, to 13 million cars, compared with U.S. sales of about 10.5 million cars. The strong 1988 showing surprised nearly everyone. As Tom Mason, GM's Zurich-based European sales head, puts it: "The markets have been running faster than we are."

How long will this last? The market may slow down a bit this year as higher interest rates cool off feverish consumer demand in several important markets. Nomura Securities' Lawson expects a 4% decline in unit sales, to about 12.5 million units. But 1989 is already off to a flying start—GM in Europe reckons its sales in the first two months rose 16%—and the health so far augurs well for profits.

Both GM and Ford should continue to benefit as they eliminate production bottlenecks. GM's big Spanish plant in Zaragoza last year added a third production shift to boost output of its smallest car, the Corsa (or Nova in Britain). Ford is introducing a new version of its rival Fiesta, and plans to boost production in Britain to add to its German and Spanish output.

Lest the U.S. and European carmakers grow complacent, the Japanese, too, are building their European presence. Quotas severely limit Japanese imports in every major market except Germany's, and any spurt in sales would bring diplomatic threats from vigilant EEC trade officials. Japanese carmakers' European market share actually has edged down half a percentage point since 1986, to just above 11% now, according to Nomura.

But the Japanese, following the American example, are going multinational. Nissan is boosting output from its highly efficient U.K. plant, and Toyota has been looking for a place to build a European plant. And U.S.-built Japanese cars may start arriving in the early Nineties, if they can prove their American-ness to skeptical Community officials—who probably will find strong allies in GM's and Ford's European operations.

"The European [auto] industry," says GM's Mason, "is in better shape to withstand external competition than it's ever been." In the car business, Euro-pessimism is definitely out of style. ■

It is hard enough for General Secretary Gorbachev to put bread on the Russian table—and nearly impossible to correct his country's budget deficit.

Moscow's hard choices

By Lawrence Minard

If you think the U.S. federal deficit is a problem for George Bush, consider Mikhail Gorbachev's headache. Probably since 1917—and certainly since 1940—the Soviet Union has been running large and growing budget deficits. While the U.S. has financed its deficits by borrowing overseas, the Soviets have financed theirs by printing rubles.

Past profligacy is now catching up with Moscow's planners. "Rather than admit that Soviet firms are providing lower and lower revenues to the budget, the Soviet government simply makes up the difference . . . [with] the advancement of credit," writes the Hoover Institution's Judy Shelton in her just-published examination of Soviet public finance, *The Coming Soviet Crash: Gorbachev's Desperate Pursuit of Credit in Western Financial Markets* (Free Press, $22.50). "In other words," Shelton adds, "the Soviet government is making loans to itself."

Shelton calculates that between 1970 and 1985 alone, while the Soviet state was insisting that its budget was in balance, it actually lent itself a total of 1 trillion rubles. That's $1.66 trillion at the official (and totally meaningless) dollar-ruble exchange rate of $1.66 to R1. Because the Soviet Union has thrown open the printing presses to finance the deficits, a Latin American-style hyperinflation—expressed in ever longer lines and more black marketeering, if not in retail prices—is a real threat.

Closely advising Gorbachev on how to address this impending financial crisis is the General Secretary's principal economic adviser, academician Abel G. Aganbegyan. Portly and convivial, Aganbegyan, 55, has become a frequent visitor to the U.S. He recently stopped over in New York after spending a few days on the West Coast checking out Bechtel Group (where new director George Shultz helped show him around), Sun Microsystems and several other California technology companies. He was in New York to help promote a new newsletter, *East-West Report*, produced by Robert Maxwell's Pergamon Press.

According to Aganbegyan, the Soviet Union's budget deficit will amount to around 100 billion rubles this year. "This is 11% of our GNP, versus 4% in the U.S. and 15% in Israel," said Aganbegyan. "We are in the middle, but we want to reach U.S. levels."

But how? Raise revenues? That will require making Soviet farms and civilian-sector factories more productive—impossible without (a) importing Western technology and (b) convincing cynical Soviet citizens to work harder. Indeed, Aganbegyan said he was in China in December to study the ominous inflation that has accompanied reform of that socialist

paradise. To avoid Chinese-style inflation, he said, "we must hold down capital investment in our productive sphere. And before we reduce the number of state-set prices, we must reduce our budget deficit."

Cut spending? Where? As noted, the nonmilitary part of the economy needs more investment, not less. And, if he wants to stay in power, Gorbachev dare not provoke his generals by cutting heavily into the military budget.

That leaves the Russian consumer. It is his trust—in the Kremlin and in his bosses—that Gorbachev seeks desperately to encourage, but his belt already ends in the small of his back.

As the government has printed rubles to balance the budget, a dangerous overhang of excess liquidity has been created. Shelton notes that Soviets' savings quintupled between 1970 and 1986, to nearly 250 billion rubles.

In the West, such a creation of investable funds would be seen as healthy. But in the U.S.S.R., excess savings is a reminder that there is nothing to buy with one's wages. As Shelton notes, the ruble is not convertible even within the Soviet Union—it cannot even be converted into Russian-made goods.

Aganbegyan says that perestroika will take a cautious step toward dollar-ruble convertibility in April, when the first official auction of dollars for rubles will be held. The Soviet Union's tens of thousands of enterprises and cooperatives hold some $1 billion worth of hard currencies. But the managers tend to hoard the currencies rather than use them productively—to import spare parts, say, for productivity-increasing machinery. So broken machines are left to rust.

Black marketers in Leningrad and Moscow, travelers report, currently value the ruble at about 10 cents, a 94% discount from the official rate. Aganbegyan concedes that the April auction will also value the ruble far below the official rate. But he insists that "a high dollar-ruble rate [established at the auction] won't be reflective of the ruble's true value." Besides, he adds, "a high [dollar-ruble] rate is better than having all our rubles sitting around doing nothing." Better, he is saying, to admit that the official exchange rate is meaningless than to watch the economy wither for lack of spare parts and technology.

Unable to do much about spending or revenues, will Gorbachev soon finance his budget deficits the way Ronald Reagan did, through heavy borrowing abroad?

"We have no intention of borrowing on credit to cover our budget deficit, even though many Western bankers are offering us much credit," Aganbegyan vows. "Credit should only be taken out for activities that generate funds, and the budget deficit doesn't generate any money to repay with. There is an old Eastern saying: When you enter a house, look to see how to get out of it. We feel the same about credit."

Perhaps. But the Hoover Institution's Shelton argues strongly that gaining access to the West's capital is the whole point of perestroika. Soviet debt to the West, she writes, jumped from $25 billion to $42 billion during Gorbachev's first four years in office. "Don't be confused by labels," she warns, "it's all a transfer of capital." And a serious foreign policy challenge for George Bush. ■

Andy Freeberg

Leading perestroika adviser Abel Aganbegyan
"We must reduce our budget deficit."

Contrast Air Products' ten-year plan to triple in size by 1996 with Federal Reserve Chairman Greenspan's anxiety about tight industrial capacity.

Keeping the cow, selling the milk

By Howard Banks

ECONOMISTS will tell you that a healthy industrial gas industry is a terrific signal of strong general business growth ahead.

These gases—oxygen, nitrogen, hydrogen, helium and the rest—are indispensable in businesses from chemicals and steel manufacturing to silicon chipmaking.

Alan Greenspan, meet Dexter Baker. Dexter Baker is chairman and chief executive of Allentown, Pa.-based Air Products Inc., the third-largest industrial gas producer in the U.S. He is also in the third year of a ten-year plan to make Air Products a $6-billion-a-year company by 1996, up from $1.9 billion sales in 1986 (ended Octo-

Bill Wax

Dexter Baker, Air Products' chairman and chief executive
"We're making strategic long-term investments. We have to go forward."

ber of that year). "At the end of year two, we're right on track," he says.

The ever cautious Federal Reserve chief, in contrast, fears that present U.S. industrial capacity is being strained. To forestall the inflationary pressures that would follow, he wants to cool things down. Hence, Greenspan's deliberate words in testimony before a congressional committee late last month that the Federal Reserve "remains more inclined to act in the direction of restraint than toward stimulus." Three days later, on Feb. 24, the Fed raised the discount rate it charges banks to 7% from 6.5%.

Dexter Baker figures he, too, ought to know whether U.S. factories are running so flat out that demand for their goods will exceed their capacity to produce those goods and thus produce the higher prices Greenspan fears. Baker's view from the front line of the economy is that even those industries that are facing tight capacity, like chemicals, paper and steel, are investing quite a lot in new capacity and certainly don't need higher interest rates, which over time can only slow down their expansion. Further, he points out, the National Association of Manufacturers just surveyed its members and found that over 50% have no capacity problems.

Baker, 62, stepped up capital spending at Air Products by a third in 1988, to $542 million, and is increasing it to over $600 million this year. Cash from operations will pay for most of this investment. Long-term debt in 1988 rose to $668 million (52% of equity at financial year-end), up from $616 million a year earlier. "We're making strategic, long-term investments and so are our customers. We have to go forward," he says.

Air Products has good reason to press on. Industrial gases, which now account for some 57% of total sales, will claim half the total spending this year, split equally between the U.S. and abroad. Europe, encouraged by the 1992 deadline, is "breaking out of its no-growth mold," Baker says. "They recognize they have to be competitive internationally. And Asia is simply booming."

Part of that boom has produced joint ventures such as Air Products' with Mitsubishi to develop a new process using oxygen to clean sulfur dioxide from the flue gas of a coal-fired power station. A by-product of the process is gypsum, which can be used to make wallboard. The joint venture is building a $140 million test plant at Bailley station, Indiana.

The industrial gas business mostly involves taking a free raw material (air), cleaning it and separating it into the required component parts. A simple notion requiring expensive technology. The best deals, says Baker, are when "we own the plant, put it outside the user's fence and pipe the gas in. I call it keeping the cow and selling the milk."

It has taken Wall Street a while to perceive what's happening at Air Products, but the share price has risen from around $40 last fall to a recent $45. A dividend increase to $1.10, up from 90 cents in 1987, helped, as did better news on prices. In January, Air Products led an industry move with an 8% to 10% price increase, which seems to be sticking, mostly because British Oxygen, the world's leading industrial gas producer, has decided to grow in the U.S. by acquisition rather than by "buying" market share through low-ball pricing.

What Air Products' story—and Baker's infectious enthusiasm—show is that the industrial world is headed for faster growth, with less risk of inflation, than the gloom-mongers among the central banks want to believe. If there is to be a recession, it will come because of bad policy, not because the recovery that began in 1982 has anywhere near run out of steam. ■

Rabbit is a commonplace on European tables. But at $2.49 per pound and up, is it about to replace hamburger and chicken wings in U.S. kitchens?

Bunnyburgers

By Jason Zweig

BUNNY BUTCHERING is not fun. Consider the blood-splattered workers at the Pel-Freez slaughterhouse in Rogers, Ark., where 3,000 animals are slaughtered daily. The first worker stuns each rabbit on the back of its head, then slices off the head at the neck. Another worker catches the blood in a beaker while a third saws the head open to remove the brains. The blood and brains are sold for medical research. The rest of the animal is skinned, gutted, washed, cut in pieces and packaged for sale in supermarkets and restaurants.

People chowing down on Thumper? Indeed they are, because the meat of the *Oryctolagus cuniculus*, as it is more formally known, is some of the most healthful flesh around—lower in calories, cholesterol, sodium and fat than chicken, and just as high in protein. At an estimated 20 million pounds a year, versus 20 billion pounds for poultry, the rabbit business for now is chicken feed. But demand is clearly on the rise.

Rabbit dishes are no novelty, especially in the winter, at smart restaurants like Rakel and Il Cantinori in New York, or the Rheinlander in Portland, Ore. But these days you will also find it in supermarket freezers in Winn-Dixies, Krogers and Safeways around the country. At $2.49 a pound retail, bunny meat is no threat to Frank Perdue chickens at under $1 a pound. But with veal cutlets, say, at $12 a pound, rabbit has more than snob appeal going for it.

Hill Country Wild Game, an agricultural co-op in Texas, slaughters and dresses 3,000 rabbits a week for supermarkets, restaurants, health food stores and six U.S. military bases. At Tribury Farms in Middlebury, Conn., volume has doubled in the last two years, with sales now at 2,200 rabbits a week. At Kentucky Specialty Meats Inc. of Princeton, Ky., current production of some 300 to 400 animals a week is expected to jump to 10,000 weekly after a new processing plant comes on line later this year.

With the rabbit business hopping, who should be turning up next but stock promoters? Ultima International Corp. of Walnut Creek, Calif. went public in a penny stock merger in 1988 (recent price: bid 1 cent, asked 2 cents), and two other offerings are on the way. Midland Rabbit Products, Inc. of Marietta, Ga. is being offered at $5.50 a unit (one share, one warrant) by Capital Securities Group of Fort Collins, Colo. Rex Furs Inc. of Vancouver, with a herd of 3,000 rabbits in Hyrum, Utah, is now in registration.

Investors have been down this trail before. From 1980 to 1985 a Tennessee man, David Maddux, bilked over 700 people in 19 states of $4 million by selling them rabbits on the bogus promise that he would buy back the offspring for their meat and fur. Arizona promoters around the same time stole $1 million from investors in a limited partnership tax scam based on rabbit raising. Investors were told that the meat from the partnership's rabbits would be freeze-dried and sold to feed Korean mercenaries in Saudi Arabia. No such sales occurred, and a state court ordered the promoters to refund the investors' money.

Rabbit raising is risky enough even when it's on the up-and-up. Between 25% and 40% of rabbits die before they can be processed. Highly susceptible to respiratory and intestinal ailments, the dear little things require special cages, ventilation and sanitation systems. They eat nearly a third of a pound of feed each day (none of it carrots) and need about 4 pounds of feed to gain a pound in body weight.

Even leaving out labor and other overhead costs, bringing a survivor to market isn't cheap. Typically, in the nine weeks between birth and butchering, each creature consumes $1.80 of feed. At its demise, the animal will yield some 2½ pounds of carcass. Rabbit raisers these days are getting roughly 50 cents to 70 cents per pound for the edible meat, and the processors are selling it to distributors for between $1.80 and $2.29 per pound. Retail? It's $2.49 and up. For the farmer, the low end is a break-even deal at best.

The real profits, in theory at least, come from selling off Thumper's inedibles: the blood and brains for medical research ($2), the feet for lucky amulets ($1 retail per paw), the droppings for fertilizer and potting soil ($1.80 per year per rabbit). Stock promoters like to hype the pelts of rabbits as the most valuable part of all ($6 to $15 each), but demand for the fur is limited. Moreover, the best pelts come from older rabbits with tough stringy meat that is none too tasty.

But the biggest obstacle of all is EBS or the Easter Bunny Syndrome. The thought of eating a cuddly animal re

mains repugnant to many in the U.S., no matter how tasty or healthful the meat. Efforts to call rabbit meat something else—"lapin" (French for rabbit) or "tibbar" (rabbit spelled backwards)—have fooled no one.

Some processors and distributors have made the worst mistake of all—placing entire carcasses in supermarket meat counters, where they lie with all the appetite appeal of frozen hunks of road-kill. Says Dr. Nephi Patton, a rabbit expert at Oregon State University, "Who wants to buy a carcass that looks like a frozen cat?" No surprise, then, that some producers market the meat in prepackaged parts, like chicken. Pel-Freez is even including recipes for such delicacies as rabbit tetrazzini.

There seems little doubt that rabbit consumption can keep rising. But will rabbit ever displace chicken on the American dinner plate? Rabbit man Philip Polzella of Tribury Farms is refreshingly blunt. Says he: "You and I will both be dead before rabbit takes over from chicken." In short, if rabbit appeals to you, put it on your plate, not in your stock portfolio. ■

Can a handful of True Believers manipulate the media and cause industries to tremble? After a decade of headline hype, now it's time to . . .

Meet the meatless

By Richard Behar

It came from nowhere and, by some accounts, it's taking over the planet. In 1980 only a handful of zealots talked about animal liberation—the inherent "right" of animals to share the planet with humans, as distinct from merely being protected from wanton cruelty. Today, news and talk shows give space and time to the movement even as they warn darkly of its activists as being a new breed of terrorist. "Profound questions are being raised, and ignoring them won't make them go away," reports a *Newsweek* cover story. "A clear and present danger," barks *Barron's*. "Let's stamp out animal worship before it's too late."

Really? Too late for what? Cut through all the noise, and at the heart of the animal-rights movement lies something we've all seen plenty of already: a feeding frenzy by an issue-starved, headline-hungry media.

Just how big is this movement? Accounts vary from 10 million people (CBS News) to 7,000 groups *(Newsweek)* to an annual budget that the Fur Retailers' Information Council variously estimates at anywhere from $200 million to $1 billion. But back out all the triple and quadruple counting of names on mailing lists, eliminate all the traditional groups like ASPCAs, voluntary animal shelters and the city dog pounds that *Newsweek* apparently counted, and the movement is much, much smaller than the scare headlines suggest.

One recently retired Justice Department official who tracked the rights movement for the Reagan Administration tells FORBES that the angry, attention-getting fringe boils down to fewer than 100 troublemakers. Many belong to radical-sounding groups like Band of Mercy, Urban Gorillas and the Animal Liberation Front. These are the people who sneak up on women and spray-paint their fur coats, or perhaps "liberate" lobsters from holding tanks in seafood restaurants.

Small their numbers may be, but suddenly their voices are loud, intimidating . . . and unceasing—at an animal-rights rock concert in New York last month, at an upcoming "Great American Meat-out" starring Doris Day later this month. Even the conservative Humane Society has caught the fever and now denounces bacon and eggs as "the breakfast of cruelty."

Such rhetoric echoes the tactics of the movement's few extremists—threatening the lives of animal researchers, pouring acid on the windshields of their cars, even taking credit for the torching of a partially built California research center in 1987.

Yet even that behavior hardly rates the word "terrorist," which is how the FBI describes one extremist group, the Animal Liberation Front. Indeed, there is not one recorded instance since the inception of the movement in which any animal-rights organization has physically hurt anyone.

Nonetheless, all this sound and fury is having a predictably unnerving effect on business. That's unfortunate because at least 20 million animals are used annually in research ranging from cosmetics testing to the development of new vaccines and organ transplant techniques. It was in monkeys, for example, that an AIDS-related virus was first isolated in the early 1980s. Nearly 2 million diabetics are treated each year with insulin, most of which is animal-derived.

Even so, Benetton, the Italian clothing chain, has recently announced that it will no longer perform safety tests for its new toiletries line on animals. Similarly, Noxell Corp., maker of Noxzema skin products and Cov-

Scott Thode TB Pictures

Harassing a Manhattan fur wearer
Next, a Great American Meat-out.

[illegible] Genetics, has announced that it will cut down on its use of rabbits. Reports Ms. Frankie Trull, president of the Foundation for Biomedical Research, an industry trade group, "In the last few months, I've received a dozen calls from researchers who say they are bailing out. Two multinational pharmaceutical firms have also called. They're having second thoughts about building new U.S. research facilities because of this."

The most bizarre reaction of all involved some much-publicized events surrounding Connecticut-based U.S. Surgical Corp., the nation's leading maker of surgical staplers. Out of fear that its chairman, Leon Hirsch, might be assassinated, the company last year infiltrated undercover operatives into an animal rights group. Result: Last autumn an activist tried to plant a pipe bomb at the firm's headquarters. Ironically, the activist may have been entrapped and egged into her action. The company denies this, and the case is now the subject of a federal investigation.

Just who are the people frightening ordinary businessmen this way? For an answer, meet Ingrid Newkirk, 39, the British-born founder and leader of People for the Ethical Treatment of Animals (PETA). Newkirk boasts that her group, with 200,000 dues-paying members and a $5 million annual budget, is the fastest-growing of any animal-rights group, and no one in the movement disputes her.

How did PETA, established in 1980 and based in a warehouse near Washington, D.C., get so big? Thank its slick public relations machine, run by Newkirk and a staff of 65—most of whom call themselves "vegans," a radical type of vegetarian who disdains the use of all animal products, be it leather, milk or wool.

To get her message across, Newkirk has become a master at hype, staging well-organized media events like sit-ins and concerts then following them up with direct mail campaigns for funds. Newkirk, it turns out, is also the spokesman for the Animal Liberation Front and often turns up with press releases within a few hours of "raids" or break-ins. Are PETA and the Front actually the same? Newkirk won't comment but does endorse the destruction of property in order to free animals or obtain corporate records.

Reasonable people everywhere oppose wanton cruelty to animals. But PETA wants more than that—the complete halt to society's use of animals for any purpose whatever. By PETA's light, a diet of broccoli, whole wheat, bananas and tofu could meet the nutritional needs of all humanity, and cotton and Orlon can take care of the world's clothing needs.

What makes Newkirk such a dedicated defender of the rights of animals as against humans? Answers she, "When it comes to feelings, a rat is a pig is a dog is a boy. Many people can look at an animal and nothing looks back at them. They don't see a reflection of self in that animal's eyes."

According to Newkirk, this view of man and beast appears, in part at least, to be rooted in her early years as the unhappy only child of a British military engineer in India. To get her out from underfoot, Newkirk's parents put Ingrid in a Catholic convent where she spent nine years of what she recalls now as utter and consuming misery. Says Newkirk of those days, "The nuns would smash us across the face with the full force of their hands for the most trivial of reasons, like talking during meals.

"It was a desolate, very lonely experience," Newkirk recalls. "It scars you for life. At first, you're desperate to get in touch with your parents, but by the time you do go home you really hate and resent them."

Eventually the family returned to England, and as a teenager Ingrid joined them. There were obvious emotional strains with her parents, and before long Ingrid had gotten herself romantically entangled with a race-car driver. This simply enraged her parents even more—so much that, as she now bitterly recalls, she was forced at the age of 19 to marry under threat of being disowned and rendered a ward of Britain's family court.

Manuelli-Paganelli-Woodfin Camp

Animal activist Ingrid Newkirk and friend
Seeking meaning in an animal's eyes.

Even marriage provided Ingrid no lasting fulfillment, and it was not long before she found herself working in, of all places, animal shelters. One thing led to the next, and by the time she was 30, animals had become the central focus of her life. In 1980 she divorced, started up PETA, and for the following seven years lived out of a sleeping bag on the office floor.

Today PETA is all that any animal-loving misanthrope could hope for. Posters of blood-drenched animals drape the walls. Dogs lie on pillows in offices as humans do the work. Typically, this consists of stuffing envelopes with pamphlets that bring news of lab break-ins or where they can purchase "cruelty-free" soaps and shampoos that have been developed and marketed without first being tested on animals.

To PETA and Newkirk there can be no legitimate contrary position. To drive this point home, PETA aggressively runs slates of its own people in board elections of rival rights groups. Latest is the successful 1987 "takeover" of the Boston-based New England Anti-Vivisection Society (fund balance, $8 million.) The century-old group officially still operates independently, but in reality PETA vegans and allies now control the Society and its spending.

How much longer will this zealotry go on? For the Newkirks of this world, perhaps forever. But in Europe, where the animal-rights movement hit hard in the early 1980s, signs of ebb tide are appearing. Fur sales dropped 80% in Holland between 1980 and 1984, but have risen 130% since. In Switzerland, sales are up compared with last season, despite animal-rights activity and a mild winter. "The public is getting tired of the movement," says Juliette Bailey of the London-based International Fur Trade Federation.

For now at least, Americans—even up to President George Bush himself—will apparently have to endure a bit more of this movement before it burns itself out. Last month an unidentified White House employee wrote to Newkirk complaining that the President's pet spaniel, Millie, was mauling squirrels on the White House lawn. How did the President feel about this transgression of squirrel rights? According to the letter writer, the President dismissed Millie's antics as "good practice" for when the pooch gets taken on hunting trips. Ingrid Newkirk is furious. ■

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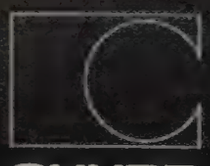
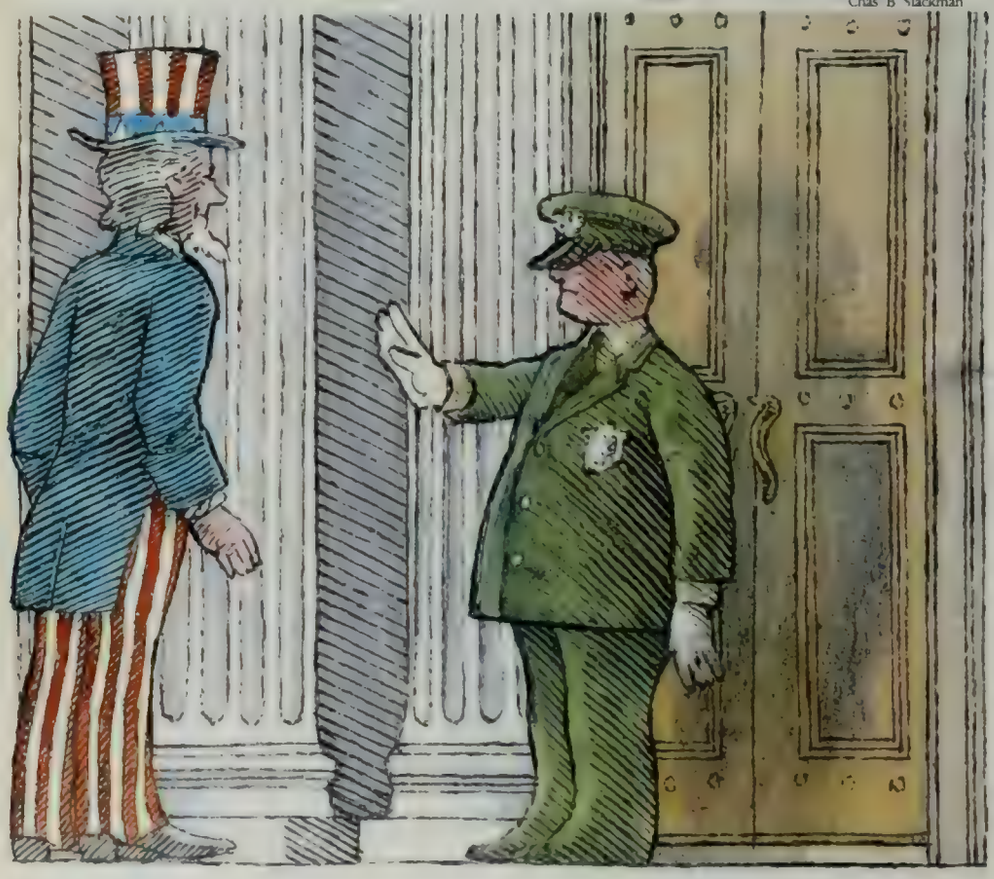


Finally, banks are disclosing their lending to highly leveraged transactions. Too bad the disclosures are virtually meaningless.

A colossal case of apples and oranges

By Penelope Wang


Chas B Slackman

AFTER YEARS OF SECRECY, repeated demands by financial analysts and increasing regulatory pressure, banks are finally disclosing information about their lending to highly leveraged transactions such as leveraged buyouts. Is that good news? Not quite. What is emerging is a colossal case of apples-and-oranges accounting.

In December, for example, Bankers Trust reported that its leveraged lending portfolio stood at $3.3 billion, or about 13% of total loans. What constitutes leveraged lending to this bank? Any transaction in which debt equals 70% or more of total capital.

Now consider Chemical Bank. At year-end it reported that loans outstanding to leveraged corporate transactions total $2 billion, or 4.8% of its total loan portfolio. What definition of "leveraged" did the bank use to arrive at this figure? All transactions in which the borrower's indebtedness exceeded its tangible net worth by more than 3-to-1. To add to the confusion, unlike Bankers Trust, Chemical's figure included total lending outstanding, not just senior debt.

In sum, anyone who thinks Bankers Trust is twice as risky an investment as Chemical because it has more than twice as much of its portfolio in leveraged transactions is guilty of mixing apples and oranges. "We are at the point where no two banks' leveraged buyout disclosures are alike," complains George Salem, banking analyst at Prudential-Bache.

At the root of the problem are government regulators, who are responding to congressional anxiety over leveraged buyouts and junk bond financing. Heavy lending to those markets spurred the Comptroller of the Currency and the Securities & Exchange Commission to push the

Dare to compare

Consider these reports from five major money center banks of loans made for highly leveraged transactions. Now consider their definitions. Can anyone sensibly compare one bank with another on such bases?

Bank	Leveraged loans outstanding* ($ bil)	% of total loans	Definition of leverage
Bank of America	$[illegible]	2.0%	LBO and recapitalizations outstanding, including various forms of acquisition and other leveraged financing.
Bankers Trust	3.3†	13.0†	Acquisitions in which debt to total capitalization is 70% or greater.
Chemical Bank	2.0	4.8	Borrowers' indebtedness exceeds tangible net worth by more than 3-to-1.
Chase Manhattan	1.3	1.9	Transactions that result in a change in ownership and in a company's capital structure, maximizing leverage.
Citicorp	4.2 (U.S. only)	2.8	Senior lending for the acquisition of commercial and industrial companies.

*1988 year-end figures †As of Dec. 7, 1988

Source: company data.

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banks for greater review and disclosure of what is actually in their loan portfolios. Yet the regulators have not provided anyone, least of all the banks, with a definition of what constitutes a leveraged transaction in the first place. "If it looks leveraged, it probably is leveraged," sighs one SEC staffer, "but most of us would be hard-pressed to come up with a definition."

But just such a definition is indispensable, of course, if bank reporting is to have any meaning at all. Just when does a deal become so highly

Complains banking analyst George Salem of Prudential-Bache, "We are at the point where no two banks' leveraged buyout disclosures are alike."

leveraged, and therefore risky, that it must be disclosed? At a 3-to-1 debt-to-equity ratio? At 10-to-1?

What's more, leverage per se does not automatically equal risk. Notes Stephen Skaggs, vice president at Alex Sheshunoff & Co., the Texas-based bank analysis group, "The real factor in these transactions isn't so much the leverage as the cash flow." Skaggs points out that a buyout leveraged at 5-to-1 might not have cash flow to cover interest payments, whereas a deal at 10-to-1 might well have more than enough cash flow to cover interest costs.

Another problem is that highly leveraged deals may include a smorgasbord of transactions, from LBOs to mergers to ESOPs, each one subject to different types of risk. The definition could even include funding for venture capital and research and development deals.

What to do about this accounting mess? Recently a glimmer of hope appeared on the horizon, when the Federal Reserve directed bank managers and examiners to review leveraged transactions that exceed a debt-to-equity ratio of 3-to-1. That's an arbitrary level, to be sure, but an arbitrary definition is better than no definition if everyone agrees to accept and use it. That way, at least it is possible to have comparability.

Unfortunately, the SEC, which regulates reporting to the public, has no plans to require banks to use the Fed's guidelines in their loan disclosures. Meanwhile, 1988's crop of annual reports is already at the printers or even in the mail, chock-full of apples and oranges to frustrate and confuse any investor trying to figure out which banks are the safest banks. ■

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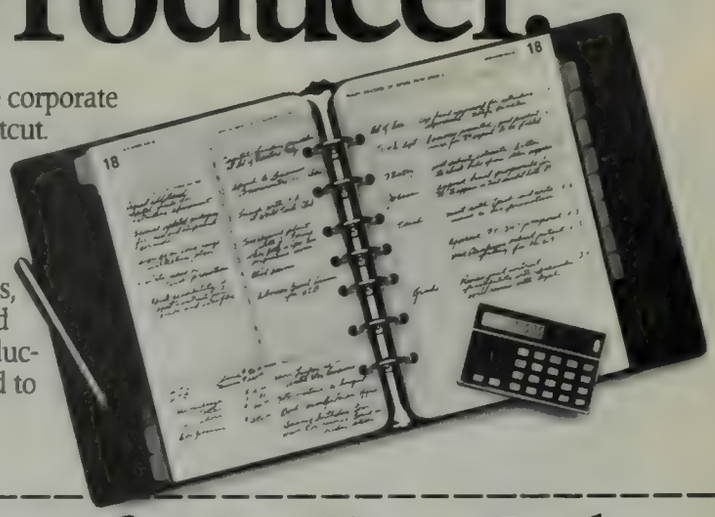

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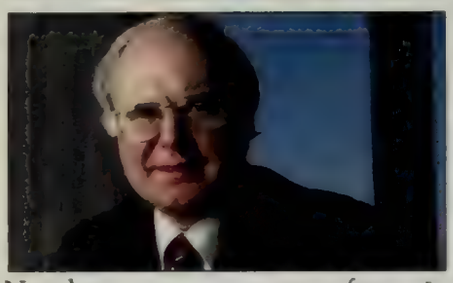
We are allowed to wish that the American professors in love with Marxist analysis would take into account the rambling wrecks of actual Marxist societies.

THE GRAMSCISTS ARE COMING

By Michael Novak



Not long ago, a reporter from *Le Figaro* (Paris) was in my office describing the downward swoosh of the intellectual respectability of Marx in France. In France, he said, no serious intellectual takes Marxism seriously. Even in the U.S.S.R. mentions of Marx are greeted with sardonic smiles. Then my friend added with a touch of Gallic condescension: "The U.S. is the only country in the world whose universities take Marxism seriously."

My travels around America suggest that my friend is well informed. New Marxist journals thrive as never before; courses and study groups abound, more than in the 1930s.

Has the degree of alienation from American institutions prevalent in many places in the academy (chiefly in the social sciences and the humanities) been fully plumbed by the business community?

Antonio Gramsci (1891-1937), the Italian communist, probably predicted as well as anyone that Marxism would turn into a theory of culture rather than of economics.

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. and is author of The Spirit of Democratic Capitalism *and* Free Persons and the Common Good

In Latin America, Gramsci is now the rage. Since Gramsci predicted the cultural Marxism we are now experiencing in North America, we are likely to hear more of him soon.

Gramsci's central thesis is that Marxism may fail in economics, but will triumph in culture, among communicators. He saw that in Italy the economy (at that time still largely agrarian, but becoming industrialized) was lifting the "proletariat" into the middle class. Therefore, he theorized, Marxists would have to penetrate the culture, ideas and morals of the Italian people—and to replace them with Marxist ideas and morals. Then, one day, the country would wake up as a new Marxist nation, conquered through its moral/cultural system rather than through its economic system.

Recently, the Socialist Party leader in Chile, Ricardo Lagos, said that an economic interpretation of the socialist revolution is an outdated notion. The future of socialism, he said, lies in penetrating the educational, religious and cultural systems. Lagos is a democrat and a socialist, not a Marxist, but here Gramsci is his inspiration.

Thus, as they see Marxist economies all around the world spectacularly fail, some intellectuals are not giving up on the socialist dream, only transposing it to a new battlefield. They try to give new meaning to liberal, humanistic and religious ideas—emptying them of reference to objective ideas founded in "nature and nature's God," and aiming to fill them with new political content. They desire more determined states, strong enough to impose equality under the banner of morality. They mean to do this peacefully, through ideological persuasion.

Why are so many American professors vulnerable to the Gramsci project? More than one imagines, some feel underloved, underhonored and underpaid. Some openly declare their envy of the rich. From highly paid, tenured positions, some think of themselves as proletarians.

I have heard a full professor from a prestigious New England university complain in a public lecture of being paid "mere crumbs" from the tables of his university's corporate executive trustees. National standards for professors of his rank suggest that he receives about $60,000 per annum (for eight months' teaching) and that with his wife's salary, his household income ranks in the top 5% of U.S. households (which begins at $86,000).

A successful man, honored by his peers—how can we explain his feeling of alienation? Consider another professor whose brother (a C+ student in college) is now president of a large firm, and paid more than thrice the professor's salary, who generously invites the professor to use his yacht for a week each summer. Only a saint would think that such a world is fair.

Pity the poor professor. He fears that the world "will little note nor long remember" his own social vision. All he has for hostages are the children of corporate executives.

In a free society, competition of ideas is healthy. Even a cultural system adversarial to its own country's economic and political systems can be a stimulant.

We are allowed to wish, though, that the minority of American professors in love with Marxist analysis would take into account the rambling wrecks of actual Marxist societies. Just possibly, too, they might study with rather more respect the ideals implicit in the humble workings of our own imperfect, but historically extraordinary, national experiment. A "cool and candid people," James Madison wrote, "will at once reflect, that the purest of human blessings must have a portion of alloy in them, that the choice must always be made, if not of the lesser evil, at least of the greater, not the perfect good."

The "commercial republic" designed by Madison and Jefferson is not the "kingdom of God." Professors are right to criticize it. But to supplant it with Gramscism? *Déjà vu* all over again, Yogi Berra said. ■

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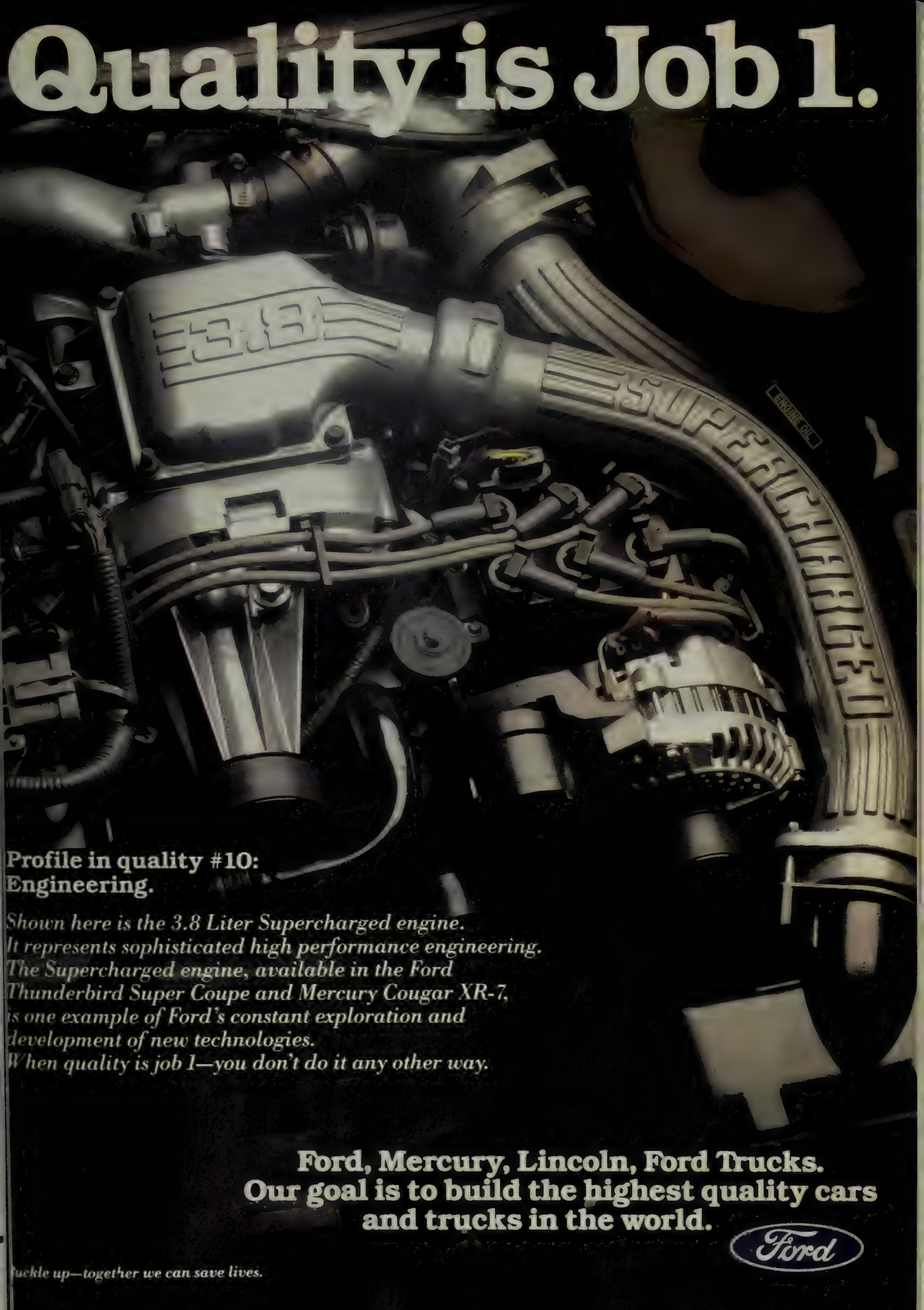

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Brooklyn Union's Elwin S. Larson
How to get growth in a mature market.

Jodi Buren

Natural gas isn't toothpaste, but that hasn't stopped New York's Brooklyn Union Gas from selling it as if it were.

"We had to get more sophisticated"

By James Cook

ELWIN S. LARSON, the 63-year-old boss of New York's Brooklyn Union Gas Co., has long peddled natural gas the way other people peddle toothpaste, and he's determined to do more of it. Eighteen months ago he brought in a former Colgate-Palmolive executive as assistant vice president to do precisely that. "The industry is changing, and we felt we had to get a lot more sophisticated," he says. "We had been growing at 1% a year, and we are now running around 4%."

Compared with most other gas utilities, Brooklyn Union has been playing the toothpaste game for as long as most people can remember. The company's market is the New York City boroughs of Brooklyn, Queens and Staten Island, mature territory that until a few years ago had been declining economically. Larson and his predecessors therefore did what any smart businessmen would do in the circumstances—they went after market share.

In Brooklyn Union's largely residential territory, that meant persuading New York householders to convert from oil heat. Peddling toothpaste? In its ads Brooklyn Union has plugged gas heat so effectively that prospective customers are at least as familiar with its virtues as those of Colgate or Crest. Brooklyn Union now boasts nearly 75% of the one- and two-family residential market in its territory, versus 68% only five years ago, and as much as 33% of the more difficult apartment house market, versus 29% five years ago.

Larson has had luck on his side. Deregulation enabled natural gas to win a price advantage over oil nearly a decade ago, and Larson has capped the advantage by exploiting the gas utilities' new freedom to buy gas directly from the producers rather than from the big pipeline systems that deliver it. He has already replaced half of the high-cost gas Brooklyn Union had been getting from Transco with market-sensitive gas bought under contracts from Enron and Shell. At the same time, he backed out of a deal to use high-cost liquefied natural gas from Algeria, and began bringing in more lower-priced gas from Canada and buying more and more of the company's needs on the newly developed spot market. The result: Gas costs fell 35% in five years. And they may fall even further. By 1991 Brooklyn Union hopes to get 25% of its supplies from Canada, up from less than 10% last year. Canadian gas, Larson says, is among the cheapest available anywhere.

Lower gas costs as such don't do anything for Brooklyn Union's bottom line—they're passed through directly into rates—but they've given Brooklyn Union a powerful marketing tool in its competition with oil. And not a moment too soon. Since 1981 the New York Public Service Commission has steadily reduced the company's allowed rate of return. But thanks to the volume economies of its expanding gas business, the company nonetheless usually earns the maxi-

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mum allowed it by the regulators. That's no mean achievement. Few utilities in the business earn their maximum allowed return year in and year out.

"Our growth has not been as good as we would like," Larson concedes. "But we were coming down from an allowed rate of return of 16.5% a few years ago to 12.9% currently, so it's hard for earnings per share to grow at all." The result is that though Brooklyn Union's per-share earnings are up 46% since 1986, they're still no better than they were in 1985.

But the industry is changing, as Larson says, and so are its opportunities. After more than a decade, oil and gas prices are once again at parity with each other, making it a lot more difficult for Brooklyn Union to increase market share. "You can't offer someone a big payoff by converting to gas," Larson says, "so we are putting a lot more emphasis on customer service, on finding out what the customer really wants."

The prospects may be less clear-cut, but hardly less promising. For one thing, the long-term economic decline of Brooklyn Union's service area has been arrested—partly because of the company's own development efforts. And though the one- and two-family residential market is nearing saturation, the apartment house market has barely been scratched. Larson has been playing the toothpaste game there and everywhere else.

He has come up with cogeneration projects for hospitals and office buildings. He has also developed what he calls wraparound service, wherein Brooklyn Union owns the gas-fueled heating and cooling facilities in large installations and sells their output.

"With oil and gas prices at parity, you can't offer a big payoff by converting to gas, so we're putting more emphasis on service."

He hopes to convert more New York City schools from coal to gas, to put gas into the thousands of city-owned buildings being rehabilitated under a ten-year, $5.2 billion program. He has even put into service two experimental buses that operate on compressed natural gas at costs competitive with those of diesel fuel. That could eventually open up the transportation market to gas—fleet operators like bus and garbage collection companies, the post office, even United Parcel Service. Says Larson: "We see no reason why we can't maintain a 3% to 4% annual growth. Which in a mature territory is pretty good."

It could be even better if Larson succeeds in expanding his franchise. Brooklyn Union has made a standing offer for the gas business of troubled Long Island Lighting Co. Larson wouldn't turn his back on Consolidated Edison's gas business in Manhattan and the Bronx, and he has his eye on gas utilities in nearby New Jersey, Connecticut, Massachusetts and Pennsylvania. Says Larson: "When we find opportunities that make sense, we will go after them."

Meanwhile, Brooklyn Union has been moving into a raft of unregulated businesses—oil and gas exploration, propane distribution, gas heating and cooling equipment, cogeneration—that last year yielded 14 cents a share, up from 5 cents the year before. "That's part of our strategy—to become a more diversified company and have more value for our shareholders. As it builds, we think that value will be reflected in the stock."

For the moment, however, it's the toothpaste game that is driving the company. Analysts are forecasting as much as $2.65 a share this year, versus $2.49 in 1988, and Larson suspects they're not far from the mark—especially if Brooklyn Union gets the $76.5 million rate increase it's asking the PSC for, its first in four years. ■

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By Mike Henson

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Fireman's Fund's stock picker, Bob Bruce, scours the country in search of bargain stocks. But some days he looks no farther than his office walls.

Value is where you find it

By Jonathan Clements

WHAT BUSINESS is Fireman's Fund in? There are two possible answers to that question. One is property-casualty insurance, and a rotten business it is, to hear Chairman John Byrne tell it. He allows that this business, which is prone to periodic bouts of cutthroat price-cutting, is capable of giving its proprietors barely a 12% return on equity over a full cycle.

The other answer is that Fireman's is in the money management business, investing, as it does, a $7 billion pool of reserves and premium float. Insurance is merely an excuse for running money.

If you go by the first answer, you will note that at a recent 32⅝, Fireman's is trading at just over seven times 1988 earnings of $4.51 a share. That's fairly cheap, but the insurance business shows signs of heading into another downswing of the cycle. Moreover, Fireman's combined ratio, which measures just how unprofitable its underwriting business is, remains 4 points worse than the industry average. Fireman's has $1.09 of losses and expenses for every dollar of premium, against the industry's $1.05. If it weren't for investment income, both Fireman's and its average competitor would be in the red.

If you go by the second view of the business, Fireman's as investment company, you will focus instead on these numbers: Every share of Fireman's gives you a portfolio of $157, $39 in stocks and the remaining $118 in Treasurys, federally insured mortgage-backed securities and top-quality municipals. The $118 bond portfolio has an average maturity of four years. Against that portfolio are obligations of $124 a share, mostly in the form of reserves for insurance claims.

If you take this perspective, you will focus your attention not on the illustrious (at least in property-casualty circles) Byrne, who once rescued auto insurer Geico Corp., but on Fireman's 45-year-old chief investment officer and president, Robert Bruce. A graduate of Columbia Business School and a former Marine sergeant, Bruce left Cumberland Associates, a New York City money management firm, to run the Fireman's portfolio in July 1986. Since taking over the portfolio, Bruce has returned 9.5% a year after taxes. The equity portfolio is up 19% a year pretax, versus 7.7% a year for the S&P 500.

Warren Buffett is someone who appreciates the fact that an insurance company is an investment company in disguise; his own Berkshire Hathaway makes a tidy stream of

Fireman's Fund President Robert Bruce
"When we make a mistake, it will be a big one."

Karen Halverson

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capital gains from the portfolio of a property-casualty subsidiary. Says Buffett modestly: "There are only two insurance companies that have people who are demonstrably superior in the investment arena, and that's Fireman's Fund and Geico." As a Fireman's consultant since 1985, when American Express first offered shares in Fireman's (then a wholly owned subsidiary), Buffett had a hand in installing Bruce in his present job.

Like true value players out of the Buffett mold, Bruce and Byrne see Fireman's portfolio as reaching beyond the money they have under management. It extends to the outstanding stock of Fireman's itself. That is, Fireman's can buy its own stock in lieu of buying IBM or GE.

Sound illogical? Let Bruce explain. "If one is a rational economic man, what does one do [with a mediocre business like property-casualty]? One withdraws capital from that business and puts it elsewhere." The withdrawal has taken the form of share repurchases. Over the past two years Fireman's has forked out $625 million to buy in 19.3 million shares of the 66 million outstanding.

With Fireman's stock currently trading about on par with its book value of $32.75, shares bought in by Fireman's are effectively earning an aftertax return equal to the insurance company's return on equity, which was 14% for 1988. With the top corporate tax rate at 34%, that's equal to a pretax return of 21%, better than even Bruce could consistently do with a portfolio of other stocks.

To be sure, Bruce is not going to carry the repurchasing to the logical extreme of liquidating the whole company. Repurchases curtail the company's capital base and therefore the amount of insurance it is legally permitted to underwrite. But it does make sense to trim a little off the bottom, forsaking the least profitable insurance business. It is there that he could actually earn an effective 21% return by buying in shares.

Bruce applies the same value-oriented, total-return analysis to other stocks. As of year-end 1988, 43% of Fireman's $1.8 billion equity portfolio was invested in just five stocks. "There's a relative shortage of really good investment ideas," laments Bruce. So when the opportunities come along, Bruce bets big.

Just such an opportunity occurred on Jan. 11. Before the market opened that day, Raychem Corp. announced that it would post "significantly lower" profits for the most recent quarter. Raychem's stock, which traded at 54 six months earlier, closed that day at 31, down 4 (FORBES, *Feb. 6*). Almost 3 million shares had changed hands, half of them bought by Fireman's Fund. In a few frenetic hours, Fireman's had spent $43 million to become one of Raychem's largest shareholders.

Bruce, an expert on the oil industry, is laying a long-term bet on San Juan Basin Royalty Trust, a natural gas producer that is 44% owned by Fireman's. As a trust, San Juan pays no corporate tax of its own, so Fireman's share of the earnings is taxed only on Fireman's tax return. Says Bruce, "Gas is what we will come to rely on if we want to cut our dependence on imported oil, if we don't allow nuclear plants to be built, and if we continue to be concerned about acid rain and the environmental impact of coal."

Fireman's biggest holding is a $248 million stake in Freeport-McMoRan,

Says Warren Buffett, "His record is so good that I do everything in my power to hide it from Berkshire's shareholders."

a natural resources company with interests in uranium, geothermal energy, oil, copper and gold. "In each case, the company is a low-cost producer of the commodity," Bruce says. "Even though we have unrealized appreciation of $90 million, we have not sold one share."

Fireman's owns 9.4% of insurance brokers Alexander & Alexander Services. Insurance brokers generally trade at up to three times revenues. Alexander & Alexander, with 1988 sales per share of almost 28, trades at only 23¼. Add in the company's debt, and its total market capitalization is a bargain one times revenues.

"If we're going to be undiversified, chances are that when we make a mistake, it will be a big one," says Bruce. It was almost that way with U.S. Shoe, which Bruce bought before the October 1987 crash at 26, only to see it slump to 13. Now U.S. Shoe is back at 24⅛, and the company is soon expected to announce a corporate restructuring or asset sale. Says Bruce, "I think we will realize a meaningful profit, though not nearly enough for all the anguish we suffered."

If Buffett is reason enough to buy Berkshire Hathaway, Bruce may well be reason enough to buy Fireman's Fund stock. Says Buffett: "His record is so good that I do everything in my power to hide it from Berkshire's shareholders." ■

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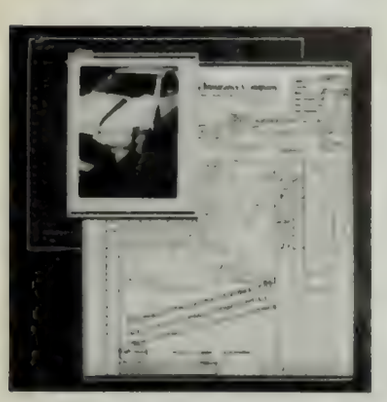

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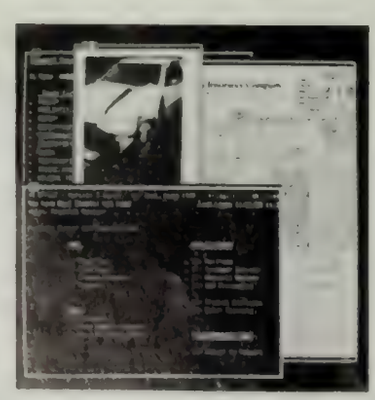

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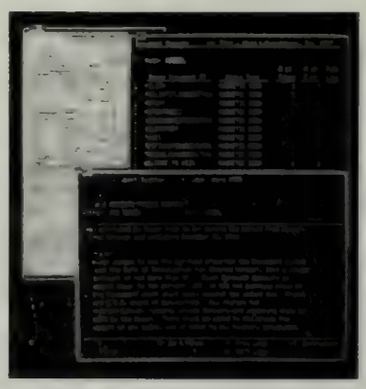
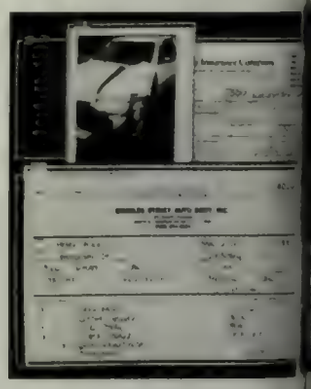


Touch a button and you have a data window, a text window, an image window right in front of you. Presto!



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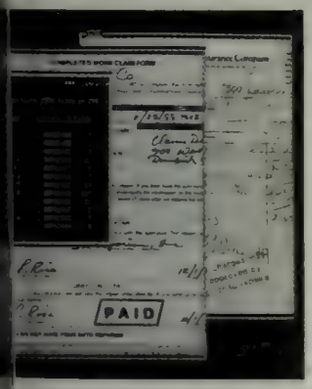

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Builders

"Why do you want to work for me?" Frank Osborn's prospective boss demanded. "I don't want to work for you," shot back Osborn, whose Osborn Communications is now a thriving little media company.

"I want to build my own company"

By Ronald Bailey

As a young man, Frank Osborn was an idealist who wanted to make working on an assembly line both more efficient and more humane. He graduated in anthropology from the University of Pennsylvania in 1968, spent three years as a lieutenant in the Navy and went on to the Wharton School of business administration. While most of his Wharton classmates were studying finance, Osborn specialized in organizational behavior and operations research. Upon graduation, he joined RCA's personnel staff in New York.

Broadcasting entrepreneur Frank Osborn
"We bring major market management to middle market stations."

And then Osborn took the other road. Looking for more responsibility and a line job, he talked his superiors into making him vice president of finance at the NBC radio group; in 1981 he was named vice president and general manager of NBC's New York FM radio station, WYNY.

The station, potentially a gold mine, was languishing. So Osborn refocused WYNY's programming from a fuzzy mix of adult contemporary music to soft rock for a more clearly targeted audience. The station also introduced chirpy sex therapist Ruth Westheimer to America's airwaves, and spent $2 million a year on a massive promotional campaign. In only two years, WYNY's cash flow jumped from $1 million to $8 million, making it the radio station with the highest cash flow in America.

In 1983 a headhunter asked Osborn if he'd be interested in talking to someone about building a broadcast company. That someone turned out to be Robert Price, a former New York City politician who had founded Price Communications Corp. (FORBES, *May 4, 1987*). The two met for drinks at "21." After an awkward initial ten minutes, Price, an abrasive egoist, impatiently asked Osborn, "Why do you want to work for me?"

"I *don't* want to work for you," shot back the determined Osborn, "I want to do what you do. I want to build my own company."

Price liked Osborn's spunk and signed him on for two years. As senior vice president-radio, Osborn worked with Price to increase Price Communications' radio holdings from 1 station to 15. "Bob Price," says Osborn, "taught me how to do deals." In the process, Osborn met numerous investment bankers, venture capitalists and media investors; among the latter was Brownlee Currey, publisher of the *Nashville Banner*, who served for a while as chairman of the board of Osborn Communications and remains a major shareholder.

If Price hoped Osborn would stay with him, he was disappointed. In 1984, while he was still with Price, Osborn raised $2.5 million from a group of independent businessmen and the venture arm of the Bank of New England and John Alden Life Insurance Co. Osborn Communications was born. Osborn's strategy has been

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to purchase underperforming broadcast properties in middle markets and then aggressively revamp management and advertising sales. As Osborn puts it: "We bring major market management and marketing skills to middle market stations."

The strategy isn't novel, but it is profitable. In December 1985 Osborn Communications made its first acquisition, WKRZ-AM/FM in Wilkes-Barre, Pa., for $7.6 million. At the end of this month, those stations will be sold for $12 million (the price includes $10 million in cash).

Osborn acquired Toledo, Ohio's WMHE-FM in February 1986 for $6.3 million. A promotional campaign and programming changes doubled the station's cash flow. Last April WMHE-FM was resold for $19 million.

In an underwriting led by E.F. Hutton and Robinson-Humphrey, Osborn Communications went public—note the fortunate timing—in May 1987. There are currently 5.1 million shares outstanding, with a market value of $41 million. Osborn has managed to hold on to 21% of the stock. Equitable Securities' Robert Bolen estimates the private market value of Osborn at $10.50 per share, as against the company's recent price of $8 a share. Keep in mind, however, that the company is highly leveraged: Operating cash flow coverage of interest obligations now stands at just 120%.

Osborn is building Osborn Communications into a multifaceted media company. Its 21 radio stations provide about 60% of the company's total revenues, which came to $60 million last year. In addition, Osborn owns three Muzak franchises in Georgia and WJSU-TV, a CBS affiliate in Anniston, Ala. Other assets include three profitable entertainment properties in Wheeling, W.Va.: the Capitol Music Hall; Jamboree USA, the second-longest-running country music show in the world (behind Nashville's "Grand Ole Opry"); and the annual "Jamboree in the Hills" country music festival, often called the "superbowl of country music."

Osborn Communications also owns 70% of Osborn Entertainment, From this platform, Osborn hopes to install pay-per-view TV systems for Hospital Corp. of America and other hospitals within five years. Osborn says he is also looking at outdoor advertising, where some major properties are on the block, and says he is interested in more Muzak franchises.

But radio will be the key to Osborn Communications for the foreseeable future, and that future is somewhat cloudy. Osborn believes that there are now fewer bargains among middle market stations. Moreover, Federal Communications Commission law limits ownership to no more than 12 AM and 12 FM radio stations.

Where will Osborn look for future expansion? He has already shifted his strategy to buying stations at the periphery of major markets, in the hopes that he can move them closer to the larger markets. For example, in 1987 Osborn purchased WGIG-AM/FM in little Brunswick, Ga. Osborn has moved WGIG's broadcast tower 30 miles closer to Jacksonville, Fla.—a much larger market. Osborn, who paid $1.5 million for the stations, was recently offered $6 million for the FM station, but says he will hold both. "I believe they will be worth $20 million."

Not consolidated on Osborn Communications' books is its 25% equity stake in Fairmont Communications, which Osborn got in 1987 for a $500,000 investment. Osborn's partners are Citibank Venture, Prudential-Bache Interfunding and Robert Price's Price Communications. In 1987 the latter sold to Fairmont seven radio stations, most of them in major markets, for $120 million, of which $50 million was an accrued interest loan. A very sweet deal for Fairmont. The partnership will soon buy two more stations, bringing the total number to nine.

As manager of Fairmont, Osborn has more than doubled the stations' combined cash flow, to $13 million. Several analysts agree that Fairmont is now worth around $156 million, less debt of $130 million. Yet Osborn receives only $250,000 a year to manage Fairmont.

Osborn makes no secret of the fact that he is not satisfied with his 25% holding in the company. His solution: Either Fairmont should be liquidated or he should be allowed to buy out his partners. Either way, expect Osborn to continue selling off his smaller stations and reinvesting the proceeds in stations in larger markets. Don't expect a big push into television: Like many broadcasters, Osborn believes that television stations are overvalued (FORBES, *Feb. 6*).

Only 41, Osborn has many years to develop Osborn Communications into a large media company. He is setting his hurdles high. "The barriers to building your own business are far more modest than most people can imagine," says Osborn. "The growth of Capital Cities over the past 30 years is a good model."

The Up & Comers

Merchandisers

It all started with one simple run in her stocking. Today, London's Sophie Mirman is a multimillionairess.

Queen of pantyhose

By Diana Fong

SIX YEARS AGO 27-year-old Sophie Mirman noticed a run in her stockings. She wanted to replace them on her lunch break but figured that doing so would require at least an hour of fighting the throngs at a department store. What a hassle.

Mirman, who had entered the retailing business as a typist at London's Marks & Spencer, was at the time managing some London stores for Britain's Tie Rack Ltd., a chain of small, conveniently located shops specializing in men's neckties. An idea flashed: If men could buy a new tie in a few minutes, why couldn't women do likewise with stockings?

Mirman and her husband-partner, Richard Ross, went looking for money for their idea of a stocking store

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chain, Sock Shop, and came away empty-handed. Determined, the couple borrowed £45,000 ($81,000) in government-guaranteed loans for small businesses and invested another $3,600 of personal savings. They opened their first Sock Shop in April 1983, in a busy subway station beneath London's fashionable Harrods department store. Today Sock Shop International Plc. operates 98 shops in Britain, 3 in France and 17 in the New York area, making the company one of the world's largest specialty retailers of women's hosiery.

It's not high tech, but it's nothing to sneeze at. Sock Shop earned $4.7 million on sales of $45 million in the fiscal year ended Sept. 30, 1988. Sock Shop went public on London's Unlisted Securities Market in May 1987, and currently is valued by the market at $57 million. Mirman and Ross, both only 32, own 80% of the thinly traded and risky equity.

Sock Shops are tiny—each store averages only 420 square feet—and sell everything from women's tights with leopard spots to popular argyle socks for men and some novelties like socks that play "Happy Birthday." But Sock Shop's bread-and-butter business is in basic women's hosiery—"an everyday necessity, like newspapers," Mirman explains. "Just as you would not expect to walk very far to get your newspaper, the same goes for tights and socks. The key is location, location, location."

Sock Shop's Sophie Mirman
Selling socks like newspapers.

Mirman blew into New York in December 1987. Within 11 months she had opened 17 Sock Shops, in an aggressive attempt to preempt the best sites before competitors could get to them. As in central London, the Sock Shop concept is to cluster the New York outlets in heavy pedestrian areas near subway entrances and around train stations.

Stephen Broward, executive vice president of Sock Shop International Inc., says he expects the U.S. stores to break even by September. With inventory turning over briskly, yearly sales are averaging $1,182 per square foot, seven times the median for women's hosiery sold in department stores. But that figure is also less than half what the established British Sock Shops do, suggesting that there is still plenty of room for improvement.

Mirman trades on speed and convenience, not on price. A pair of Sock Shop pantyhose typically costs $2.75, well above the price of, say, L'Eggs ($1.69) in a grocery store or discount drugstore.

"Retailers discount brand merchandise heavily in the U.S. without the backing of the supplier, which means that one has to cut margins or lose market share, and we're not prepared to do that," says Mirman. The convenience and service of Sock Shops, she says, more than make up for slightly higher prices. Broward claims that his average customer completes a transaction within 90 seconds. Later this year an electronic point-of-sale system will be installed in all stores,

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Pantyhose at $249 the pair

For most women in need of new stockings, pantyhose at $2.75 a pair from Sock Shop or a drugstore usually suffice. But for the woman who wants to slip into something special, there is Fogal AG, of Zurich. At Fogal's shop on New York's Madison Avenue, basic pantyhose cost around $40 a pair. Aspen, shiny black opaque pantyhose, cost $105 a pair—less than half the price of Cashmina, a pair of cashmere/silk blended tights priced at $249. (Men's socks start at $25 a pair and rise to $165.)

Fogal AG of Zurich on New York's Madison Avenue Jan Staller
The right addresses and sexy catalogs.

What makes a pair of pantyhose worth $40, let alone $249? "It's a luxury brand, like Ferragamo or Mercedes," replies Katharine Eltz, Fogal's North American sales manager. "There's tremendous hand labor that goes into a pair of pantyhose. We use the best raw materials." Fogal's stockings come in a breadth of styles and colors—shades as subtle as dijon, azur, bordeaux, jeans, fougere and mykonos—and are said to fit better. But like other stockings, they snag and run.

Started in 1920 by Lion Fogal in Zurich, and bought out in 1968 by Walter Meier, Fogal AG is a private, family-run business. There are now 90 corporate-owned shops, licensees and department store franchises at the world's most exclusive addresses: Rodeo Drive, Madison Avenue, Regent Street, the Ginza. Store sales are supplemented by mail-order sales based on sexy mail-order catalogs. The company declines to release profits, but a spokesman says sales per square foot average around $3,700. Worldwide sales were $23 million last year. Fogal does over half its business in Switzerland; virtually all its hosiery is made there.

Can one tell at a glance the difference between a $40 pair of Fogal's tights and a $2.75 pair of pantyhose from a drugstore? Probably not, but that's not really the point. "People spend $250 on a sweater," reasons Katharine Eltz. "Why not on pantyhose?"—**D.F.**

making each sales transaction even faster and improving the chain's inventory controls.

It's never easy to export a retailing concept, of course, even in something as basic as pantyhose. Mirman minimized the risks of moving into New York by hiring local managers who understand the U.S. market. The locals' knowledge was invaluable from the start. Stockings held up by garter belts, for example, are far more popular in Britain than in the U.S., where most women prefer pantyhose. When Sock Shop opened its first New York outlet, near Grand Central Terminal, it was stocked not only with pantyhose but also with branded hosiery names familiar to Americans—Hanes, Calvin Klein and the like. But to Mirman's pleasant surprise, Sock Shop's private-label hosiery, with its higher margins, is selling well here, and the plan is to gradually reduce branded merchandise.

There have been unpleasant surprises, as well. One is the rent—an average $135 per square foot per month—that Sock Shop's New York landlords charge. Another is the city's high shoplifting rate, which means expensive security measures. Still another is the intense competition. After six years in Britain, Sock Shop so far has virtually no competitors. But in the U.S., says Mark Gordon, a senior vice president at Hot Sox, a hosiery designer and distributor, "there are 10 or 15 chains that sell hosiery, and we've seen a proliferation over the past two years." Besides the old established Park Lane and Albert's, which are updating their image, there is Fogal's at the extreme high end *(see box above)* and Sock Express and Leg Room in New York. Most other sock shops are spread in suburban malls across America.

Jan Staller

One of the New York area's 17 Sock Shops
The bread-and-butter business is basic hosiery.

As she readies an assault on the French market, Mirman is also testing out Sock Shops in two malls in New Jersey and Pennsylvania. If those pan out, she promises to proceed with expansion plans along the Northeast corridor. It won't be easy. Warns competitor Frank Freeman, president of Minneapolis' Sox Appeal, which has 15 sock stores nationwide: "New York is ideal for Sock Shop's concept, but in the heartland of America, pick-me-up pantyhose might not work as well."

Sophie Mirman is undaunted. "We wanted to blitz Manhattan, and now we feel that we're virtually there," she says. "If we can make it there, we can take the concept national." ■

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Recoveries

Rocky Aoki built his Benihana restaurant chain with a showman's flair. Can he now learn the virtues of restraint?

Rocky's road

By Eric Schmuckler

A HARVARD BUSINESS SCHOOL case study in 1972 lauded the U.S.' Benihana of Tokyo chain of Japanese steakhouses as a classic entrepreneurial success story. The company had grown to 15 outlets grossing $12 million in less than a decade, thanks to efficient controls and to the inspired showmanship of founder Rocky Aoki. Now 50, Aoki has ballooned across the Pacific, nearly killed himself racing powerboats, and lost millions on movies and Broadway shows, as well as on an aborted Atlantic City casino, and on a club associated with a nudie magazine he founded.

But any Harvard case study today would be something other than a rave review. Benihana went public in 1983, made some money—and then lost a great deal of money. The stock, which went as high as 21½ in 1985, now trades at around 3.

In 1976 Aoki brought in a partner, Hardwicke Cos., to manage the chain during its expansion. "Rocky," recalls Joel Schwartz, now the chain's president, "wanted to play." But Aoki had a falling-out with his partner and got rid of Hardwicke in 1980. (In that same year he settled Securities & Exchange Commission charges of insider trading in Hardwicke stock without admitting or denying guilt.)

In need of money to pay down debt incurred in divorcing Hardwicke, Aoki raised $5.5 million in a 1983 public offering of Benihana National Corp. The daily operations of the Miami-based company are run by Schwartz, while Aoki continues to play hard and comes up with new concepts.

In going public, Benihana National bought 11 restaurants from Aoki in exchange for 60% of the common and repayment of some of the founder's personal debt. Aoki retained about 30 outlets—including joint ventures and franchises he had granted—in his privately held Benihana of Tokyo. Today, publicly held Benihana National owns 20 restaurants and expects sales of $34 million in fiscal 1989 (ending in March), with profits of some $1.8 million. Aoki's private company grosses a similar amount.

Shortly after the public offering, Benihana National introduced a line of oriental frozen foods distributed through supermarkets. Within two years, frozen food sales exceeded $40 million; profits climbed above $4 million. The stock took off.

But then, predictably, major food companies, such as Campbell Soup and Stouffer's, began to push their own oriental frozen food products. Benihana couldn't afford to compete with these giants in national TV advertising or in giving retailers "in-

Bill Wax

Benihana National Corp. founder Rocky Aoki
What would a Harvard case study say now?

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centives" for freezer space. Between 1985 and 1987 Benihana National lost $11 million in frozen foods. The company sold the business in late 1987 to the small outfit that had been producing the dinners for Benihana, for $4.5 million, and booked a $1.6 million loss. "We weren't prepared for that kind of jungle," sighs Schwartz.

Other troubles were brewing. Benihana was struggling with Big Splash, its elaborate new seafood restaurant concept. With 20 types of fish on the menu, Big Splash lacked the tight focus and minimal waste that make the steakhouses hum. And the flagship Big Splash in Miami was situated in an area heavy with retirees, who balked at the high prices and exotic seafoods. "All we sold was salmon and red snapper," moans Aoki. After losses of $2.7 million, the company closed its two Big Splash restaurants last spring, booking another loss of $2.2 million. Overall, Benihana National showed a loss of nearly $7 million ($1.35 a share) in fiscal 1988.

Rocky Aoki clearly relishes living on the edge. "As long as I'm above water, I feel good," he grins. "Money is for spending. If I don't spend, I don't learn."

Is the worst now behind Benihana National? Possibly. The steakhouses are still popular, and Schwartz promises to focus on cautiously opening two or three a year. A faster pace, he says, would be a mistake—personnel and training aren't up to snuff. There is some money for expansion left over from a 1987 offering of Class A stock with reduced voting rights. Schwartz is also experimenting with a downsized version called Benihana Cafe, for areas that can't support a full-fledged steakhouse. The first Benihana Cafe will open in midtown Manhattan later this spring.

Ladenburg, Thalmann's Roger Lipton believes the company will earn a modest profit this year. But future profits may well depend on whether Aoki can learn the virtues of restraint. Schwartz wants to expand the cafes cautiously. But Aoki is eager to open a slew of them and start selling franchises—and open a Big Splash in New York. Aoki, it must be recalled, owns 51% of Benihana National's common.

"As long as I'm above water, I feel good," grins Aoki. "Money is for spending. If I don't spend, I don't learn." Many of Benihana National's shareholders are still wondering what they'll get for their steep tuition. ■

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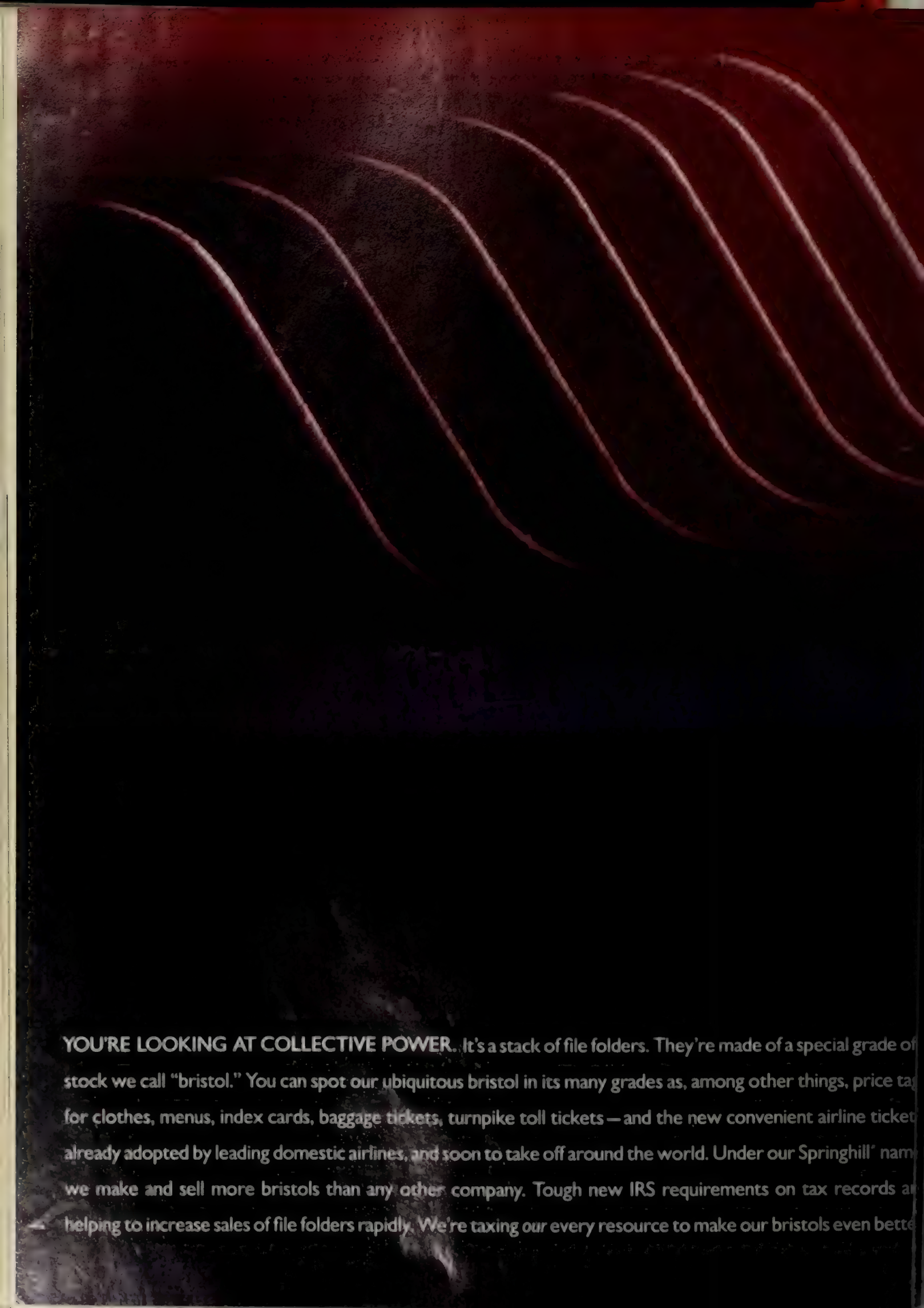

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Hibernia Corp. is smack-dab in one of the worst banking markets in America. So why is it making so much money?

"Our competitors can't touch us"

By John H. Taylor

To say Hibernia Corp. dominates Louisiana banking is like saying the Harlem Globetrotters have an edge over Vassar. Hibernia, the state's largest bank, with $6 billion in assets, earned more last year than its three largest rivals combined, despite having little more than half their total assets. In head-to-head competition in Louisiana's major markets, Hibernia makes 43% of the loans and grabs 35% of the deposits.

Being the best bank in Louisiana sounds like a limited claim. The fact is, Hibernia's performance is excellent by any measure. For example, the bank averaged a 17.5% return on equity over the last five years, compared with 14.3% for its national peers during that same period. Its return on assets from 1984 to 1988 topped 1.02%, when the industry average was 0.9%. Crows Hibernia's chairman, Martin C. Miler: "We've achieved these results in an economy that would make Frankenstein sob."

When Miler took over the 119-year-old bank in 1973, Hibernia was being clobbered by its two major New Orleans-based competitors, Whitney Holding Co. and First Commerce. But Miler transformed Hibernia, which had been earning a paltry 0.5% on assets, into an earnings juggernaut. For 60 consecutive quarters, earnings have climbed. In 1988 it made $53 million, or $2.60 a share, a 14% increase in net income over 1987.

No masterful coup explains such results. Miler, 54, a stocky Iowa native, spent a decade recruiting aggressive, sales-oriented bankers, giving them lots of responsibility and then rewarding them with heavy cash incentive packages and liberal stock options. "We traded parade soldiers for foot soldiers," Miler says.

Which is not to suggest that Hibernia bankers charge willy-nilly into the night. The bank has been among the most disciplined in the region, carefully but relentlessly diversifying its risks. In the early 1980s, when other banks were making as much as 50% of their loans in oil and gas, Hibernia never had more than 10% of its portfolio in energy. Today that percentage is only 4.5%. Even more impressive, it has never had a major loss on an energy loan.

Thomas Masilla Jr., chairman of Hibernia National Bank, the parent company's sole subsidiary, says Hibernia executives were not so much prescient as prudent. When handing out money, for example, they place far greater emphasis on a borrower's cash flow than on his collateral. Fundamental, too, is the bank's insistence on spreading credit and interest rate risks. For instance, about 40% of all commercial loans are to borrowers outside Louisiana, a policy Miler initiated long before the state's economy collapsed. Miler also refuses to lend too heavily to any one industry.

Hibernia does take some calculated risks. In the early 1980s, for instance, Miler became convinced that the Federal Reserve Board was bringing the interest rate volatility of the prior years to an end. That made mortgage-backed securities, then yielding between 13% and 15%, a great investment. As interest rates declined, the spread on these securities increased. Three years ago Miler, sensing rates were going to rise again, began selling some of the securities. Between 1986 and 1988 Hibernia made a $40 million profit on these transactions.

Hibernia's strength plus others' weaknesses add up to opportunity. Seventeen months ago, for example, Hibernia didn't have a single branch in Shreveport, the state's third-largest market. Through acquisitions and government-assisted takeovers, it has built a 35-branch network there and controls 20% of deposits.

Same story in Baton Rouge, Louisiana's second-largest market. In 1986 Hibernia entered the market by acquiring a bank there. Since then, assets have grown from $800 million to $1.1 billion, making Hibernia the lead lender and second-largest deposit-taker in Baton Rouge.

Hibernia's goals are neither modest nor vague. Within five years it intends to have 50% of the bank loans and deposits in Louisiana's major markets. Miler says bluntly: "Our competitors can't touch us."

Maybe not. But how about a major regional or national banking powerhouse swallowing it? That, Miler admits, is a real possibility. Within the next three to five years—depending on how fast the Louisiana economy recovers—he expects the larger banks to come calling.

With management holding 16% of the stock, Miler figures he can hold out for a good price. Hibernia trades over-the-counter at 22, or 1.4 times book value, about average for a well-run regional bank. Miler believes that a bank that dominates its market, like Hibernia does, will easily attract a price of 1.6 times book value. But for now, he admits that investors discount Hibernia's Louisiana address. That's the problem with being the only rose in a garden of weeds. ■

Jacques H. Southern/Lights

Hibernia Chairman Martin C. Miler
"We traded parade soldiers for foot soldiers."

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Otto von Bismarck created a united Germany that dominated Europe for two generations. Edzard Reuter hopes to achieve the industrial equivalent as he pushes mighty Daimler-Benz into aerospace.

Herr Reuter takes to the skies

By Peter Fuhrman

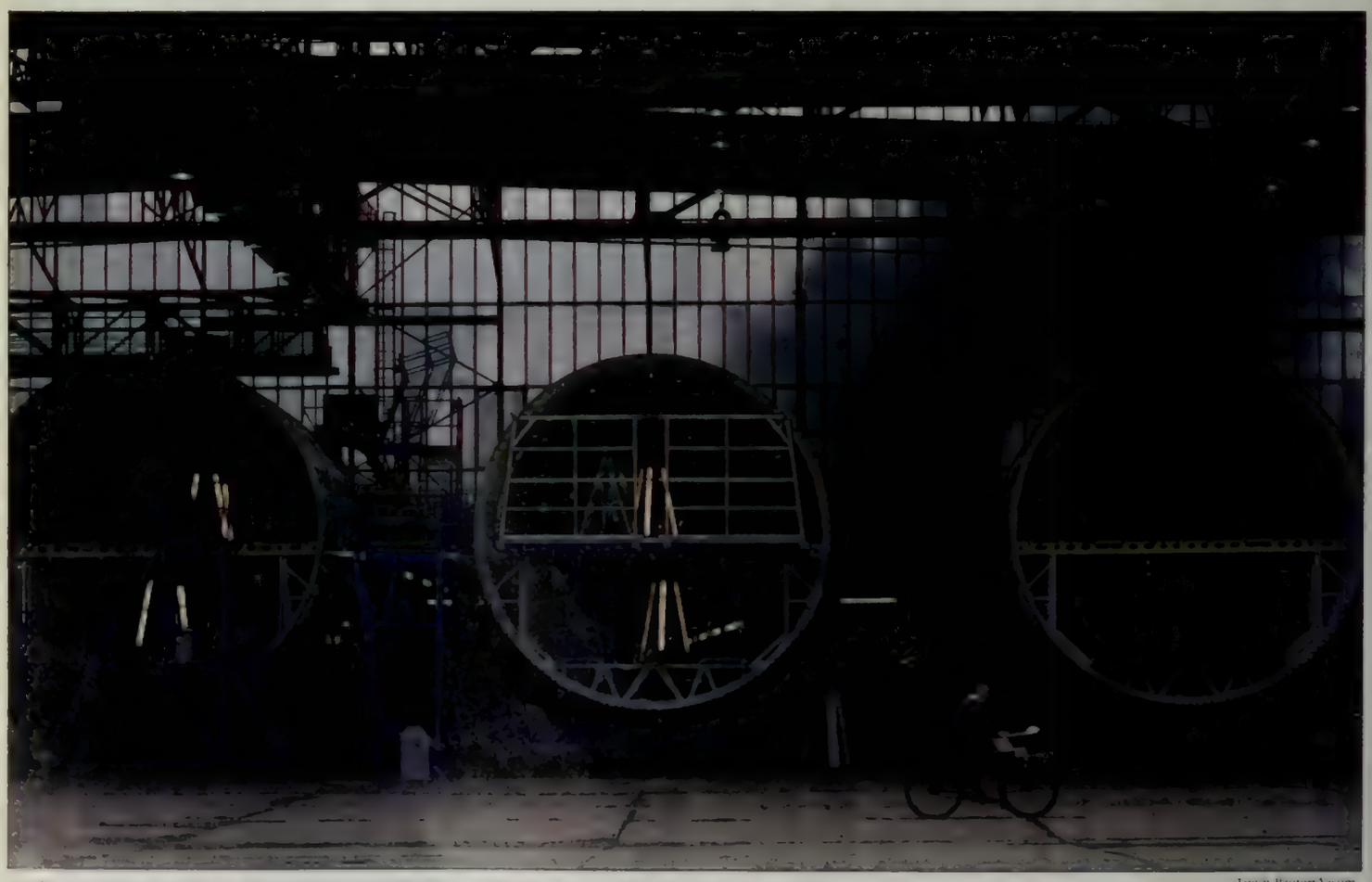
THE UNDIGNIFIED MANAGEMENT feuding at West Germany's Daimler-Benz AG is over. The victor, Edzard Reuter, crowned chairman of Daimler-Benz' board of management in September 1987, has lost no time in doing for Daimler-Benz what Otto von Bismarck did for Germany in the last century. Reuter has been unifying splintered parts of German industry to make Daimler-Benz nothing less than the cornerstone of the economically united Europe promised for 1992.

His goal, Reuter tells a FORBES reporter during an interview at Daimler-Benz' headquarters in Stuttgart, in southwestern Germany's Swabian region, is to make Daimler-Benz "an integrated technology concern on a European scale." That means building a diversified company capable of challenging American leadership in fields like factory automation, electronic weaponry and aerospace.

With sales last year of $41 billion, the famed manufacturer of Mercedes-Benz automobiles is already West Germany's largest company. Now, by merging three German firms, Reuter is on the verge of creating the largest defense and aviation firm in Europe. If West Germany's antitrust office approves, this new Daimler subsidiary, Deutsche Aerospace, will be the dominant supplier to the German military. Not since the dismantling of Krupp 45 years ago has Germany had an armaments company of such formidable size and market power.

In creating Deutsche Aerospace, Reuter is angling for a huge prize. Starting in the Cinderella year of 1992, the nations that make up the European Community are expected to spend an estimated $35 billion annually on military and aerospace procurement. It is a good bet that European politicians will want to channel these orders to European companies. Competing for defense orders, in other words, should be easier than competing for automotive market share.

Considering the stakes, it is not surprising that Reuter's master plan is receiving the same chilly response as Bismarck's efforts to reorder the political balance in Europe. The French,



Airbus construction at Messerschmitt-Bolkow-Blohm GmbH's Hamburg works Timm Rautert/Visum

The Daimler-MBB combine would supply West Germany with over half its annual military purchases.

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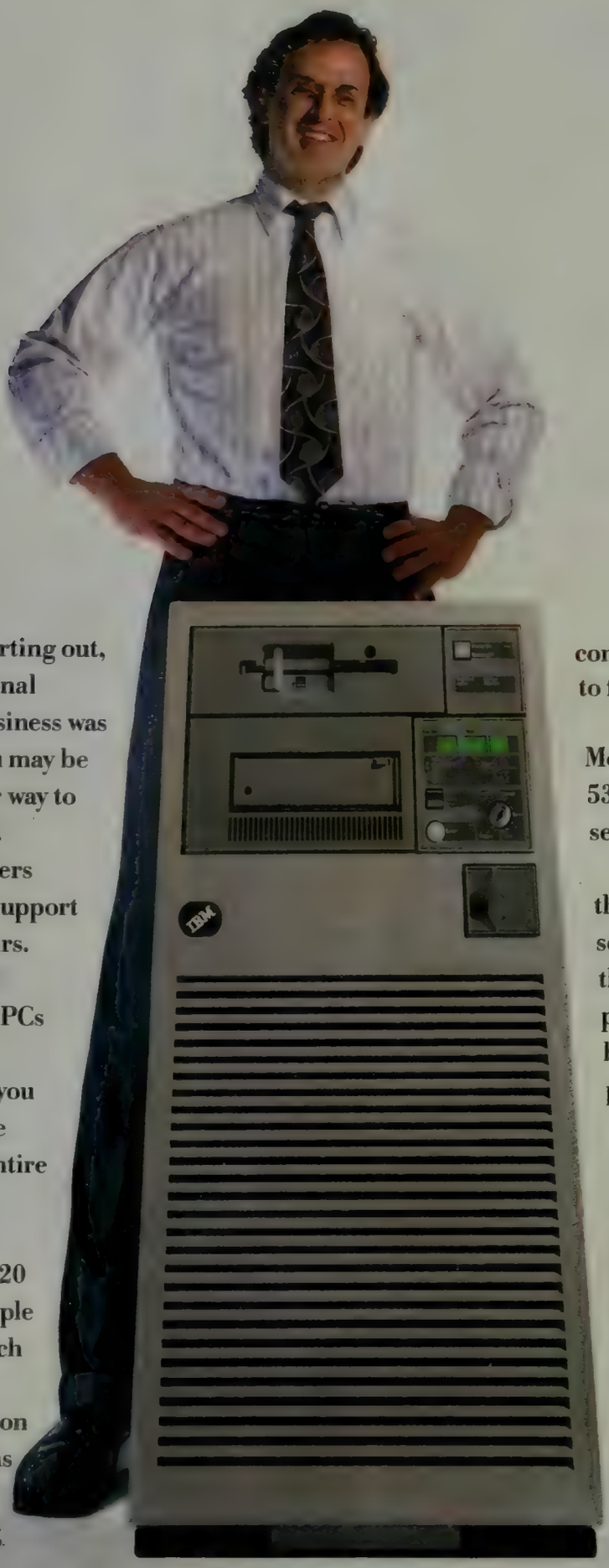

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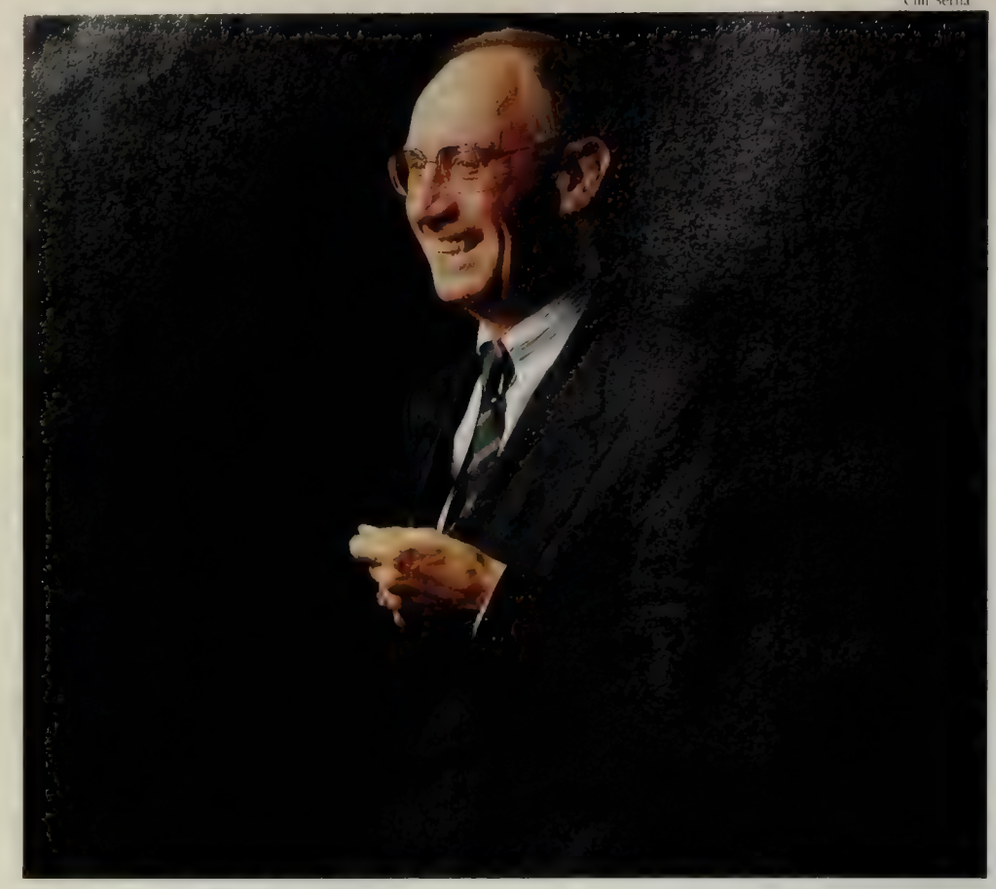

Daimler-Benz AG's Edzard Reuter
Creating "an integrated technology concern on a European scale."

British and Italians—and even the Americans—are wary of Reuter's ambitions, and would like to clip his wings. "Daimler's grand ambitions don't match the reality that it is the weakest of Europe's major aerospace companies," sniffs a British Aerospace executive, who insisted on anonymity. Grouses one senior U.S. official in Bonn: "Germans seem to prefer cartels to free competition."

Even some leading German politicians are concerned that Daimler is growing too large for the German government to regulate effectively. "I do question the wisdom of Daimler leaving the roads to fly through the heavens," says Otto Lambsdorff, chairman of the Free Democratic Party, junior partner in the ruling center-right coalition. With the Kohl government lately under fire for allowing the sale of materials and processes for chemical weapons to Libya and Iraq, worries about the adequacy of the West German government's oversight now carry extra weight.

But Reuter, 61, is not easily stopped. In 1983 Reuter's ambitions for Daimler-Benz looked doomed when he lost a contest for the chairman's post at Daimler. But the victor of that battle, Werner Breitschwerdt, lost the war when he was suddenly ousted in the summer of 1987 following several months of vicious management feuding at Daimler (FORBES, *May 18, 1987*). Daimler's key shareholders and unions doubted his capacity to lead the firm into new business areas. Reuter, who as Daimler's finance director had drawn up the plan for Daimler's diversification in 1984, was brought in to succeed Breitschwerdt in September.

Even without the chairman's title, Reuter had begun to diversify Daimler-Benz, to dilute its dependence on vehicles. As recently as 1985, sales of Mercedes-Benz trucks and cars provided Daimler with over 95% of its revenues. But Reuter could see that Europe's luxury car makers, after three years of hefty sales increases, would run into trouble as the dollar weakened and as the Japanese continued their drive upmarket.

True to Reuter's forecast, Mercedes-Benz has run into some difficulty in the U.S. Sales are down 16% since peaking in 1986. Later this year Toyota and Nissan will join Honda's Acura in selling luxury V-8 sedans that will undercut sticker prices on similarly powered Mercedes by $15,000 or more. In Daimler-Benz' home market, diesel-powered cars, long a mainstay product, are suddenly out of favor among environmentally conscious German buyers. All told, Mercedes' car output fell 6% last year, the first drop this decade.

None of this, cautions Reuter, spells disaster. New Mercedes-Benz

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The Euro-fighter Tornado under construction at Messerschmitt-Bolkow-Blohm
A threat to U.S. leadership in electronic weaponry and aerospace.

models will begin arriving in 1990. Cut through superconservative German accounting principles, advises one Deutsche Bank analyst, and Mercedes-Benz enjoys an 8% net profit margin. Ford, with the highest net margins among U.S. makers, earns a 7% net profit.

But even Reuter himself concedes that Mercedes' model-changeover process is now, at an average ten-year cycle, "just too slow." Werner Niefer, Daimler's vice chairman and president of the newly formed Mercedes-Benz AG subsidiary, faces a struggle to cut costs when volume is stagnating and investment is rising to over $1 billion annually.

Given the dependence on cars and trucks, it was natural—and, in hindsight, surely well-timed—that Reuter should have begun diversifying Daimler-Benz in 1985, just as auto sales began peaking. In rapid succession, Daimler purchased controlling stakes in three businesses: AEG, a large but struggling electronics company, and two aerospace firms, enginemaker MTU and turbo-prop manufacturer Dornier. Last year these three added $10 billion to Daimler's revenues, but contributed only marginally to profits. (Despite its relative weakness, the automotive side still accounted for about 90% of profits last year, on only 43% of revenues.)

AEG is best known in Germany for household appliances—steam irons, toasters and the like. Reuter would like the company to specialize in more technically sophisticated businesses, like factory automation. He clearly signaled those hopes for AEG when he backed AEG's recent purchases, for a total $300 million, of two similarly named U.S. plant automation companies, Modcomp and Modicon. But Reuter's boldest moves involve the creation of Deutsche Aerospace. He expects the German cartel office next month to clear Daimler's acquisition of 51% of Messerschmitt-Bolkow-Blohm GmbH, an aerospace company that holds Germany's share of the European Airbus consortium. If the merger is approved, Reuter will consolidate most of MBB with Daimler-Benz' other aerospace assets into Deutsche Aerospace—a startup with likely 1989 sales of $8 billion.

The Daimler-MBB aerospace combine is analogous to a merger between Boeing, General Dynamics, Lockheed and Morton-Thiokol. MBB and Daimler-Benz are Germany's two largest defense contractors. Together, they would supply the German government with more than half its $7 billion in annual military purchases. No single U.S. defense contractor holds more than 10% of America's $115 billion budget for weapons research and procurement.

In partnership with British Aerospace Plc. and France's state-owned Aérospatiale, MBB runs politically popular but perenially lossmaking Airbus Industrie. To stay competitive with Boeing and McDonnell Douglas, Airbus prices its jets at least 10% below the current break-even point, and even that is no sure-fire deal clincher. In February, for example, American Airlines chose McDonnell Douglas over the European consortium to fill a $6.5 billion order.

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The Kohl government hopes that Daimler, should it get MBB, will introduce some private-sector efficiency. Unfortunately, Bonn's politicians have made this less likely by lavishing on Daimler $2.5 billion in guarantees against future losses at Airbus.

MBB also holds stakes in a variety of multinational projects to produce standardized Pan-European weapons systems for the 1990s. These include fighter aircraft, antitank missiles and helicopters. By joining forces, the Europeans hope to produce in larger volume, lowering unit costs and the price advantage of competing American weapons. Over time, they could threaten the U.S.' $4 billion in annual weapons sales to Europe.

Expect, too, that Daimler will challenge U.S. firms as a major weapons exporter. Daimler's European partnerships allow it to sidestep German laws forbidding most direct arms exports. Thus, last year's sale by the British of $2 billion of Tornado fighters—competitors against Northrop F-15s—to Saudi Arabia will mean sizable subcontracts for Daimler-MBB.

Reuter hopes further to solidify ties in Europe by buying stakes in other European aerospace companies. Daimler already holds 5% of French defense contractor Matra SA. Aérospatiale, in turn, will be invited by Daimler to take an indirect minority shareholding in Deutsche Aerospace.

Perhaps to preempt concern in Washington about protectionist walls rising in Europe, Reuter says he would welcome U.S. partners, too. "It would," he says, "be the utmost foolishness to set up a purely European aerospace industry to fight the Americans." Daimler executives confirm that exploratory talks are under way with United Technologies. (Daimler is already linked with United Technologies through its participation in the Pratt & Whitney PW2000 engine program.)

But as 1992 approaches and with it the likelihood that European governments will more aggressively favor their own nationals, European alliances weigh more heavily in Reuter's mind than American ones. The chairman of British Aerospace slipped quietly into Stuttgart in February for talks about joint projects and a possible exchange of equity. Reuter is telling the British—and the French—that he wants to reorganize the way the threesome's European projects are run. At Airbus, for instance, work is shared among the owners in proportion to ownership: MBB, for example, has 38% of the shares and so does 38% of the assembly work. Reuter would rather have one partner clearly in charge as lead contractor, as is usual in the U.S. Only as lead contractor will Daimler be able to achieve both acceptable profits and a technological edge in aerospace.

Bolstering Reuter's demands is an impressive financial arsenal. Daimler has greater resources to deploy—$8 billion in cash and other liquid assets—than any company in the industry. Daimler plans to invest $17 billion over the next five years in research and development.

Gerhard Liener, who succeeded Reuter as Daimler's finance director, promises to maintain a reported cash balance equal to 20% of sales. To achieve this, Daimler will keep its dividend payout low—it was only 1.7% in 1988, less than half the West German average—and will likely call on shareholders to finance its takeover of MBB through an equity issue later this year. Moreover, Reuter enjoys the strong backing of Deutsche Bank, which holds 28% of Daimler-Benz' shares directly and has custodial control over another sizable block. Deutsche Bank's chairman, Alfred Herrhausen, is also chairman of Daimler's supervisory board, and works closely with Reuter. Daimler's other large shareholder, the Kuwaiti government with 14% of Daimler's equity, is also a strong and patient Reuter backer.

Not since the dismantling of Krupp 45 years ago has Germany had an armaments company of such size and market power.

Reuter works closely with the man who is now favored to succeed him, Helmut Werner, the 52-year-old head of Daimler's commercial vehicle division. Both men confirm that Daimler-Benz' new aerospace assets will not pay off anytime soon.

"This industrial restructuring within Daimler cannot be achieved by snapping your fingers," Reuter says, from his office overlooking the Mercedes-Benz engine factory on the outskirts of Stuttgart. "It will take another five to ten years before new businesses begin to show satisfactory profits."

A decade? Perhaps. Just as Otto von Bismarck understood that you cannot build a strong nation overnight, so Edzard Reuter knows that building an automotive and aerospace company to dominate Europe requires a little time, much diplomatic finesse and a will of iron. ■

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Dickson Poon's goal was to build his net worth to $100 million by age 30. He missed the goal by only a few months.

Keep the calculators out of sight

By Andrew Tanzer

UP AND DOWN the Far East, economies are pounding ahead, and newly rich Asians are indulging themselves with imported luxury goods. Among the more interesting characters playing this trend is Hong Kong's Dickson Poon. Net value of Poon's stock: $180 million. His age: 32.

As founder and controlling shareholder of Dickson Concepts Ltd., Poon acquires exclusive franchises and licenses for the retailing and distribution of luxury merchandise in Asia, excluding Japan. Dickson Concepts retails and wholesales Chopard, Hermès and Givenchy watches; Bulgari jewelry; and fashion and accessories from Polo/Ralph Lauren, Pierre Balmain, Guy Laroche and Charles Jourdan. All items that Japanese shoppers love, and at prices far cheaper than they can buy them at home.

In November 1987 Poon extended his reach beyond Asia when he bought Paris-based S.T. Dupont, maker of luxury lighters and pens, from Gillette for $52 million.

Born into an affluent Hong Kong family, Poon studied philosophy at Los Angeles' Occidental College from 1973 to 1978. After returning to Hong Kong, he worked for six months as an assistant salesman in one of his father's watch and jewelry shops. Then he shoved off for Geneva, where he served as an apprentice for 18 months at Chopard, a luxury watchmaker and jeweler.

Upon returning to Hong Kong, Poon did something few Chinese sons dare: He spurned his father's company to set out on his own. While working in Geneva, Poon explains, he had discovered that the atmosphere in European stores was far more refined than

Peter Charlesworth/JB Pictures

One of Poon's Charles Jourdan Shops
Following the money.

that of the traditional Hong Kong jewelers. "In Hong Kong, every retailer tried to carry as big a variety of brand names as possible, covering every square inch," he says. "It was like a supermarket. The calculator was always at the ready."

Young Poon figured out that newly rich Asians wanted something fancier than the traditional shopping. In early 1980, at the age of 23, Poon borrowed $1 million from his father and opened his first Dickson Watch & Jewellery store in the Landmark, Hong Kong's fanciest shopping center. The style was European: luxurious interiors, attentive service, a large selection of watches from a handful of brands including Chopard, Rolex, Hermès and Audemars Piguet. The promotion was pure Poon and included an eight-page

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Peter Charlesworth/JB Pictures

Dickson Poon in his European-style Hong Kong watch and jewelry store
"The Japanese are the most brand-name-conscious consumers in the world."

ad spread in Hong Kong's *South China Morning Post*

So successful was Poon's first watch store that he opened another in 1981. In that year he also acquired the franchise for Charles Jourdan fashion in Hong Kong, and opened Jourdan boutiques in Hong Kong's Central district and in Kowloon's venerable Peninsula Hotel. In 1982 he picked up the Jourdan sportswear license for the Far East, except Japan. In 1983 Poon added the Polo/Ralph Lauren line. In 1984 he landed Guy Laroche, including its worldwide licensing rights to design, manufacture and distribute Laroche-branded watches, lighters and pens.

Today Dickson Concepts runs 70 stores, 48 of them in Hong Kong. Poon advertises aggressively and, following the money, puts his elegant shops only in a city's prime locations.

Poon is a direct beneficiary of Japan's mercantilistic successes and of the artificially high prices of foreign luxury items in Japan. Half of Poon's sales in Hong Kong are to local residents; two-thirds of the other half are to spendthrift Japanese travelers. Says Poon: "The Japanese today are the single most brand-name-conscious consumers in the world."

Dickson Concepts is more than just a retailer. Only about 30% of the company's revenues is derived from retailing; the other 70% comes from wholesaling and exporting. Many of Dickson Concepts' licenses give it the right to design, manufacture and market products under designers' brand names around Asia, and some on a worldwide basis.

Poon sells imported fashion to wealthy shoppers in Hong Kong, wholesales middle-range merchandise to Hong Kong department stores, and exports to Southeast Asia designer-label products made under license by his subcontractors in Hong Kong.

With the purchase of S.T. Dupont, Poon moved onto a broader stage. Under Poon's wing, Dupont last year added its first menswear collection and introduced new watch and luggage lines to complement its traditional lacquered luxury lighter and writing instrument lines. In the first quarter of this year, he will open Dupont boutiques in Paris, Hong Kong, Singapore, Malaysia and Taiwan.

Poon sees Taiwan, with its swelling ranks of nouveaux riches, as his next big market. "We expect the Taiwanese to be very important spenders," he explains. "With a lot of newfound wealth, people tend to buy brand-name labels because it gives them status." In late 1987 Poon opened a luxury department store in Taipei's fashionable East End selling—of course—Chopard and Hermès watches, Charles Jourdan shoes and Polo/Ralph Lauren clothing and luggage.

Poon, whose firm is debt free, is also shopping for more fashion names. He says Dickson Concepts' sales will climb 50%, to $150 million in the fiscal year ending in March. Hong Kong brokerages think aftertax profits will double to $30 million, and the share price of Dickson Concepts, which listed in 1986 on the Hong Kong Stock Exchange, has tripled over the past year, valuing Poon's 57% stake at $180 million.

Poon's lavish wedding last year to a Malaysian-Chinese beauty-queen-turned-kung-fu-actress was the talk of Hong Kong's gossip press. So have been his fancy cars, yachts, helicopters and his Donald Trump-like penchant for slapping his name on his assets. But he shows no sign of neglecting the main chance.

"I want to build a truly internationalized company over the next three years with very meaningful business operations in major markets throughout the world," he vows, with a quiet intensity that says he means it. He's already more than part way there. ■

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JAGUAR XJ-S

Can a hotel turn itself into a video rental store and beat Hollywood out of movie royalties? Apparently so.

Palm Springs ploy

By Peter Newcomb

When hotels offer movies through closed circuit TV, copyright law requires the hotels to pay royalties based on the number of times each film is ordered for viewing by guests. The more popular the film, the more the royalty.

But what if a hotel puts a VCR in each room, then down in the lobby opens up a video rental store? Does the hotel still have to pay royalties? A recent decision upheld by a California federal court says no, and the ruling has some of Hollywood's biggest and most powerful studios in a bind.

The case, which pitted a Palm Springs resort, the 70-unit La Mancha Private Club & Villas, against Columbia Pictures and seven other studios, hinged on the definition of "public performance." Under the Copyright Act, studios are granted exclusive rights to control the public performance of their copyrighted motion pictures. Showings in theaters and other public places qualify. But once hotel rooms are rented by guests, they are manifestly not public places. So to allow studios to collect royalties on movies shown in the rooms, a copyright statute relied on a lawyerly fiction—that the cable-wired systems by which movies are transmitted throughout a hotel create what amount to public audiences.

The La Mancha ploy constituted a frontal attack on that reasoning. Individual VCRs are not linked by wire or anything else. And, since studios can't charge a royalty each time a cassette is rented at a store, what difference should it make if the store is owned and operated by a hotel?

Stephen Kroft, an attorney for Rosenfeld, Meyer & Susman, which represented the studios, claims the use of VCRs instead of cable involves nothing more than a newer technology supplanting an older one. "The only difference is that the guest pushes the 'play' button instead of the hotel," Kroft asserts. "Who pushes the button shouldn't make a difference."

The court thought differently. The decision, handed down by Judge William P. Gray of California Central District Court, held that the viewing of a motion picture in a hotel room is no different from viewing movies in a private home and should be regarded as such under the law. In other words, no royalties. That decision has been upheld by the federal appeals court.

Though the decision is binding in California and only eight other states, its reasoning could easily be applied by hotels seeking to challenge Hollywood's royalty rights nationwide. Hollywood stands to make around $100 million annually from cruise ships, universities and other "institutional royalties." All that is now potentially in jeopardy. "The problem is the spillover effect," warns Peter Kuyper, president of the Motion Picture Licensing Corp. Since the La Mancha ruling, several small hotels have already begun adding VCR systems to their in-room movie services. More seem likely to follow.

Another loser could be publicly held SPI Holding, Inc., which owns Spectradyne, the nation's leading provider of in-room entertainment for the lodging industry. Spectradyne generated more than $100 million in revenue for SPI last year. If the number of hotels converting their systems multiplies, Spectradyne could be severely wounded. Daniel Owen, chief operating officer, puts a brave face on the ruling: "The decision came as no surprise, and we don't expect it to hurt us. Renting a tape is inconvenient; pay-per-view is much easier."

Since a review by the U.S. Supreme Court seems doubtful at best because the case doesn't involve a significant appealable dispute, filmmakers may have to accept this ruling for what it is: another encroachment of the VCR on the movie business that once was Hollywood's alone. Meanwhile, guests at the La Mancha can go on happily watching the videos of their choosing. "We think the studios sued us in hopes that we would go away," says La Mancha attorney Jeffrey King. "When we didn't, they lost." ■

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Ten years ago Santa Monica voted in one of the toughest residential rent control laws in the country. Ten years later?

Bankrupt landlords in wonderland

By Marc Beauchamp

"WE WANT perestroika now," reads the graffiti-scarred stucco wall of the boarded-up motel. "I want to tear down this mess but Big Brother won't let me," reads a spray-painted message on the same wall that also features a large hammer and sickle. A slum somewhere in downtown Bucharest? No, this is Wilshire Boulevard between 17th and 18th streets, so close to the Pacific Ocean as the boulevard rolls west from Los Angeles that the soft breeze has a salty tang. It is 8.1 square miles of Los Angeles suburb known locally as the People's Republic of Santa Monica.

Across the street from the ramshackle, abandoned property at 1719 Wilshire is a Mercedes dealership. The bizarre contrast makes painfully clear the fate of Santa Monica in the ten years since the city voted in one of the nation's toughest rent control laws. Abandoned small apartment buildings sit forlornly next to homes costing $500,000 or more. Run-down rental units share streets with chic merchants selling everything from high-fashion clothing to automobiles for the rich and famous.

The graffiti-scarred buildings at 1719 Wilshire belong to Henry Yarmark, 73, who escaped from a concentration camp in Poland during World War II and ultimately arrived in Los Angeles in the early Fifties with less than a hundred dollars in his pocket. Today, after years of hard work at a metal business, he owns several other small properties around Santa Monica—not all of them rental apartments, fortunately for him. After he bought the 18-unit motel in the late Sixties, Yarmark rented to welfare recipients and other poor tenants by the week and waited to cash in on rising Santa Monica real estate prices. Then, in 1979, came rent control.

Suddenly, Yarmark had to roll his rents back to the levels of a year before, despite sharply higher utility and repair bills. Frustrated, Yarmark gradually stopped renting the units altogether and in 1986 evicted his last tenants, paying, under Santa Monica law, up to $3,000 per unit in "relocation expenses." Yarmark figures that the property he bought in 1968 for $350,000 would fetch $3 million on the open market today. He wants to tear down the old motel and build a small shopping center.

But the city of Santa Monica says that in order to do that he must pay to build new rental units (estimated cost: $20,000 to $50,000 each) to replace those he has taken off the market. Yarmark estimates his struggle against that constraint has cost him around a quarter of a million dollars in legal fees and lost income. Propagandizing for his protest, he got a friend to spray-paint anti-rent-control slogans over the motel's facade.

Changing minds and hearts in Santa Monica won't be easy—75% of its 88,000 residents are tenants. Most rent in buildings with 7 or 8 apartments, many bought as retirement nest eggs by immigrants like Yarmark or former employees of the old Douglas Aircraft plant at Santa Monica Airport. Despite an all but nonstop real estate boom that in less than 20 years has seen the price for a three-bedroom home rise from $50,000 to well over $500,000, these owners find it all but impossible to get open market value for their property.

Sighs Yarmark in heavily accented English, "I love this country, but I don't understand how this can happen."

Yarmark gets not a jot of sympathy from Dennis Zane, the 41-year-old mayor of Santa Monica. "This is not justice so some Joe can sell his building and go live in luxury somewhere," says the mustachioed Zane, a former high school math and history teacher. "Tenants are entitled to security in their homes. Their home life is as important as that of homeowners."

Since the rent roll-back enacted in April 1979, Santa

Alejandro Tomas

Santa Monica's outdoor mall under construction
Exempt from the city's proposed development limits.

Monica has limited annual increases to about two-thirds of the increase in the Consumer Price Index. No increase is allowed (as under Los Angeles' rent control law, for instance) when tenants vacate. Santa Monica's landlords have repeatedly gone to court over this, of course. Unsuccessfully. In 1986 the state legislature threw them a small bone. The Ellis Act of that year allows landlords to go out of the rental business, but it gives them only two options: They either can leave an apartment building vacant or they can move into one of its empty units themselves. Such a deal.

The predictable result: Frustrated with their meager returns, many landlords have simply stopped keeping up their buildings. Some 400 of the city's 30,000 rent-controlled units are vacant under the Ellis Act. Police say these vermin-infested buildings are refuges for drug dealers and a burgeoning homeless population.

Rent control has skewed property values: An empty lot can sell for $600,000, while an apartment building on an equal-size adjoining lot fetches $200,000 less.

Santa Monica's rent control statute is administered by an increasingly bloated city bureaucracy. In the past ten years the Rent Control Board's budget has ballooned from around $745,000 to $4.2 million today. Its staff has grown from 20 to over 50. Board Administrator Mary Ann Yurkonis, 40, earns around $69,000 a year, almost as much as California Secretary of State March Fong Eu. The cost is borne by—who else?—the apartment owners. They are specially assessed $144 per unit this year, up from $84 in 1986.

The irony is that while Santa Monica is a rough place for landlords, it has been close to paradise for the rich young professionals who live and open businesses there. Rents are cheap, when you can find an apartment. It is close to the ocean, with virtually none of the smog that chokes the rest of Los Angeles almost year-round. There are quiet palm-lined streets, a relatively good school system, a responsive police force. And all the chic shops and restaurants anyone would want.

Gentrification, needless to say, was not what the framers of Santa Monica's rent control law had in mind. In the middle and late Seventies, as land prices rose, landlords pushed up rents. Others sold out to condo developers. An opportunistic group of left-wing activists, funded in part by perhaps the city's most famous modern-day residents, Tom Hayden, who represents Santa Monica and much of Los Angeles' Westside in the State Assembly, and his now-estranged wife, Jane Fonda, sold rent control as a way to preserve the city's traditional population mix, which included large numbers of the elderly, Hispanics, blacks and low-income families.

Alejandro Tomas

Santa Monica Mayor Dennis Zane
No sympathy for landlords.

Alejandro Tomas

Henry Yarmark's boarded-up motel
"We want perestroika now."

"Rent control," Mayor Zane insists, "has prevented the wholesale gentrification of the city." To be sure, there are still some old people living in Santa Monica. And a sizable Hispanic community, 13% of the city's population, still lives along Pico Boulevard. But there is no disputing that Santa Monica has become younger, whiter and richer under rent control. Landlords are renting to well-heeled professionals to insure the rent check comes every month. Professionals, too, are more likely to come up with the often obligatory "key money"—as much as $5,000—that is necessary to get one of the rare apartments that change hands.

Mayor Zane may not call it "wholesale gentrification," but if it looks like a duck . . . BMWs, Audis and Acuras abound in the garages beneath $450-a-month two-bedroom apartments. Pricey restaurants like Michael's (dinner for two, $200-plus with wine), Opera and Ivy at the Shore are jammed. Expensive boutiques line Main Street and Montana Avenue. New art galleries are prospering along Colorado Avenue in a once seedy industrial area.

Not that Santa Monica has thrown open its doors to business people and developers. Auto dealer Robert Kramer spent 3½ years getting the city planning commission to approve an expansion on Santa Monica Boulevard. "For what I have spent on lawyers and architects," Kramer recently told the *Outlook*, Santa Monica's daily newspaper, "I could have built another building."

To get projects approved, developers are routinely required to cough up money to build day care centers, parks, and low-income housing. Using fees raised from developers, the city has built or refurbished more than 300 units of low- and moderate-income housing and scattered them throughout the city—quite an accomplishment for a city of Santa Monica's size. The small-scale units, some of which have won national design awards, are often the nicest-looking buildings on the street.

Now the city is debating a plan to put a cap on new commercial development, at 200,000 square feet a year, this in the name of preserving the city's small-town flavor. The proposed cap is a reaction against some million square feet of office, retail and hotel developments already approved or going up in the city.

But even its antidevelopment posture is packed with irony. The same city government that would restrict so much large development by private

contractors is downright starry-eyed over several giant projects it is sponsoring and that have little directly to do with the poor and needy. Exempt from the proposed cap would be developments at Santa Monica Airport, where the city owns the land, at the Santa Monica Mall, where it is setting design standards and helping choose tenants, and at the historic Santa Monica Pier, which it also owns.

As he tours the city, Mayor Zane curses at the office complexes going up. Yet the downtown mall, though as big as any of the developments going up, he gushes, will "be a whimsical place to lighten up." Plans call for topiary dinosaurs, high-priced restaurants and 3 multiplex theaters with a total of 17 screens. In Santa Monica, it seems, the powers that be take a dim view of development, unless it's the city's development.

The outlook for Santa Monica? William Janss, a successful developer, frets about rotting apartment buildings. "There's been a serious deterioration. Another ten years and it will be terrible. These stick-framed stucco apartment houses were built to last 25 to 50 years, but you need a lot of money to maintain them."

In the short term, though, Janss and other business people expect the good times to continue, with people clamoring to live, work and play in Santa Monica. "We just have a bloody strong economy," says Dave Paradis, executive vice-president of the Santa Monica Area Chamber of Commerce. "In other cities [rent control and slow growth] would be like cutting your throat and slowly bleeding to death."

Perestroika? Let them eat grilled swordfish in herb butter. ■

Mel and Herb Simon made a nice living plastering the Midwest with look-alike malls. Now the brothers have grown up. So have their aspirations and risks.

No more plastic plants

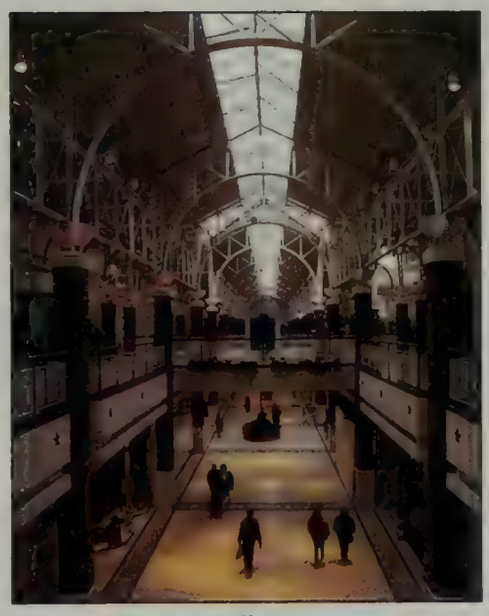
By Steve Weiner

THE STANDING JOKE about Melvin Simon shopping malls came from a department store executive. "I can tell it's your mall because the plastic plants died," he told Simon a number of years back.

Certainly, for 25 years the cornerstones of Melvin Simon & Associates were efficiency, integrity and no small dose of banality. "You would go out, find a cornfield and build a product that was cookie-cutter-type stuff," says Vice President Thomas Domagala.

That's par for the course, perhaps, for a company based in Indianapolis and run by a pair of squabbling brothers, sons of a tailor, who were born in Brooklyn and raised in the Bronx.

Uninspired maybe, but the formula was also wildly successful. Melvin Simon & Associates became the nation's largest shopping center manager, with 202 in its portfolio, and the second-largest developer, with 149 built. Mel, now 62, as the founder and therefore the owner of two-thirds of the business, has amassed, by FORBES' estimates, a net worth of at least $550 million. His brother Herbert, 53, who holds the other third, is worth more than $270 million. "They long since passed the stage where they had to go looking for tenants," says one retail executive. "Now, we go to them."



Newport Centre Mall
A slow starter, but improving.

After wealth and power, what's next? Glory, of course, and in no small measure. Volatile, ebullient Mel Simon and his quieter, more businesslike brother Herb now have 122 projects on their plate worth $5.5 billion, including some of the most difficult and complicated under way anywhere. These include:

- Mall of America, at 78 acres and 4.2 million square feet, planned as the nation's largest covered retail, hotel and entertainment complex;
- A&S Plaza, an ambitious and risky reconstruction of the former Gimbel's store on 33rd Street in Manhattan;
- Newport Centre, the $2 billion residential, office and shopping community rising on the Hudson River shore near Jersey City, N.J.;
- Hollywood Promenade, a showcase West Coast project that involves wrapping a hotel, stores and museums around Mann's Chinese Theatre on Hollywood Boulevard;
- Circle Centre, an $840 million effort to remodel and revitalize much of downtown Indianapolis.

"The old cornfields are not there anymore," says Mel, who formed the company in 1960 to build strip shopping centers for the likes of supermarkets and launderettes "These projects are more intriguing, more complex. It's a chess game, it's volatile, and it goes with my personality."

The Simons clearly signaled their higher hopes with the opening in 1985 of St. Louis Centre, a $200 million, two-block-long project that linked two department stores with a new 21-story office tower in downtown St. Louis. Its stylish white decor and unusual architecture set the tone for a series of elegant and unusual Simon projects.

The Simons are asset builders—they rarely sell a shopping center, and count it a good year when values rise, even if incomes don't. They're known for their humor, informality and bantering style that sometimes erupts into shouting matches. Los Angeles architect Jon Jerde recalls one meet-

ing where Herb angrily threw a shoe at Mel. "They play off each other," says Baltimore architect Leonard Kagan of RTKL Associates. "They let people argue it out, and that's one way they end up with a better project."

Yet the brothers are also unusually attentive to their tenants. Mel recently took the call of a department store executive complaining about signs he wanted mounted in a mall parking lot. Says Mel Simon: "Why should he call some stranger?"

All these megaprojects, of course, have created far higher levels of risk. Take Mall of America, the $600 million mall due to open in 1992 in Bloomington, Minn. The first phase, at more than 4 million square feet, is to include four anchoring stores (Nordstrom and Bloomingdale's among them), 800 specialty stores, a 7-acre Knott's Berry Farm amusement park, an ice skating rink, leaping dolphins, a golf course, and the equivalent of 96 football fields to provide parking for nearly 13,000 cars.

"It's the difference between everyday shopping and a happening," gushes Mel. "We think people will want to spend entire vacations there," says Joseph Luik, vice president of Teachers Insurance & Annuity Association, which is financing the project in return for a 50% stake. Simon and Triple Five Corp. of Edmonton, Alberta, split the other half.

Carl Maupin/Quadrant

Melvin Simon (with an Andy Warhol of the brothers)
Volatile, ebullient and dedicated to showmanship.

Entire vacations? That notion helped to inspire Triple Corp.'s monster West Edmonton Mall, which opened in 1981. The place is so big and diverse that despite huge traffic flows—about 9 million people last year—spending is diffuse. Customers often end up confused and exhausted. Some major Edmonton tenants say they wouldn't locate there again. "It's really throwing the dice to make something like this work," says RTKL's Kagan.

Or take $400 million A&S Plaza, a partnership with New York developers Larry Silverstein and William Zeckendorf Jr. It's due to open in August, with the first Abraham & Straus department store in Manhattan as its anchor. A&S expects to generate first-year sales of $125 million, high for its 14-store chain. With rents ranging from $75 to $150 a square foot, high by the standards of retailing in most places, Simon figures the 150 specialty stores at the mall will generate sales of up to $800 a foot—four times the level of its usual mall, nearly triple the expected level of Mall of America and twice as much as the department store anchor.

The design is arresting. The old Gimbel's has been gutted, its floors replaced with a seven-story atrium that abuts the glass-walled Avenue of the Americas side of the building. Pedestrians will see dozens of stores at once. Crows Mel: "It will be the first really thought-out, vertical retailing project in Manhattan."

But unlike other successful vertical malls, this one caters to moderate incomes, not luxury tastes. There are few big-name draws on the tenant list. Operating expenses will be double that of the typical suburban setting.

Similarly, Newport, the Jersey City community, though improving, has been slow to blossom since groundbreaking in 1985. Most of the 2,000 apartments and condominiums there have been occupied, mall sales have steadily improved, and the Limited, the big retail chain, recently agreed to consolidate its diverse New York operations in a new million-square-foot office building there. But the mall was launched clumsily; until recently, many potential customers considered it difficult to find. Construction work was so shoddy that Simon has sued the contractor.

If the brothers are disturbed by these problems, there's little sign of it. Mel is used to mistakes. He lost more than $30 million in an eight-year effort to be a movie producer. Pleasant but unmemorable films like *Zorro, the Gay Blade* were only partially offset by raunchy but rewarding flicks such as *Porky's*. Then, in 1983, the Simons spent a reported $13 million to buy the Indiana Pacers, a wretched professional basketball team, to keep the team in Indianapolis.

Yet the Pacers show how the asset-oriented Simons turn losers into winners. The team isn't profitable, but the family makes money on management of the arena, concessions and TV. "And the franchise itself," Herb notes, "has increased in value by maybe $60 million."

Mel Simon says entertainment and sponsorships will play a large role in future, including possible projects in London and near Nice, France. But the commitment to a higher esthetic standard isn't absolute. Like an excited kid, he shows a FORBES writer drawings of an ornate, animated, $3.5 million clock he hopes to suspend from the atrium at A&S Plaza. "What I'd like to see," he says, sounding 25 years younger, "is the name Coke or Kodak or Fuji on that." ■

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You can feel it in the 80/90 Sports Sedans. Undaunted by Autobahn speeds and Alpine switchbacks, yet ever mindful of their manners. Or you can experience it in the dramatic 100/20 Luxury Sedans and Wagons. Undeniably feisty, yet full of finesse

You see, unlike some other performance cars, an Audi is in harmony with its surroundings. A precise balance of stability and

ernate Route

Let others take the traditional course.

We prefer creativity over conformity. Invention over imitation. Inspired ideas over tired ideas. In short, Audi offers an alternate route.

And has since 1931. When we first turned our back on the rear-wheel rut. And pioneered front-wheel drive. A commitment that culminated almost 50 years later with the introduction of Quattro. Our tenacious and permanent all-wheel drive system.

The 80 Sports Sedan.

Today, that exclusive approach still prevails. Audi remains the only German luxury marque comprised solely of highly evolved front and all-wheel drive cars.

Take The Alt

alarm. Private reading lamps and earphone jacks. A two-way power sunroof. And a six-speaker stereo/cassette. All so ergonomically correct, the cockpit can best be described as the lap of logic.

The 200 Quattro Wagon.

Clearly, this is not the mainstream. This is the alternate route. From the sporty Audi 80 (cited as "the car with the best styling" in *Automobile*). To the superb Audi 200 Quattro Wagon ("Trust us," said *Car and Driver's Buyer's Guide*, "you won't find a mor refined station wagon anywhere.").

And just as clearly, the law of averages does not apply here. But then, who ever said you were average?

agility. Engineered for, and best appreciated in, the extremes of the real world. The extremes of weather and handling and road conditions.

The reasons? As varied as the Audis themselves. Consider second-generation Quattro drive, with a torque-sensing differential that can improve traction by as much as 100%. Aerodynamics as efficient as .31 cd. Advanced anti-lock braking. Variable-assist rack and pinion steering. 100% galvanized bodies. And turbocharged engines, mounted lengthwise, not sideways—for unique weight distribution.

The 100 Luxury Sedan.

Then, consider the intelligent inventory of luxuries. Like our heated leather seats, with four-position memory. Electronic climate control. An anti-theft

It's called the Audi Advantage.* And it's no mere warranty. Instead it's as close as anyone has come to risk-free, worry-free ownership.

And it's standard equipment on every new Audi. No charge. No deductibles. No excuses.

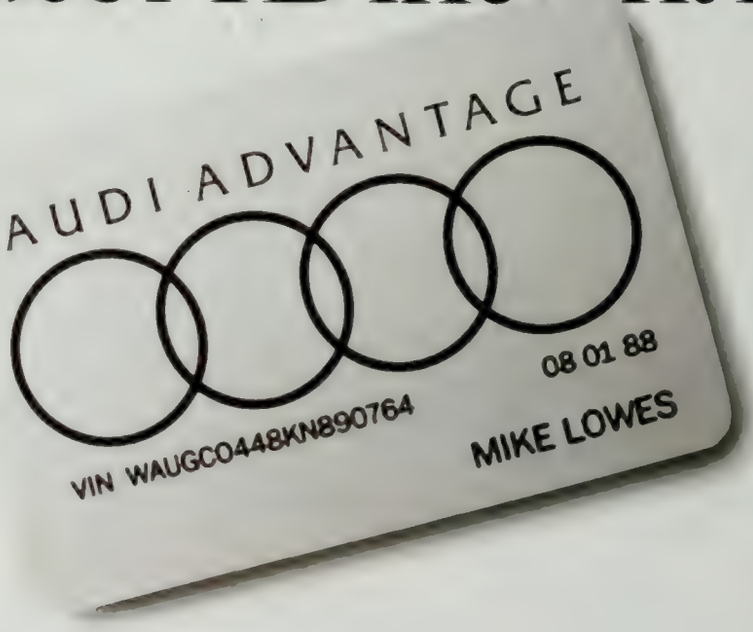
How does it work? For starters, the no-charge maintenance and limited warranty of the Audi Advantage means all repairs, all scheduled maintenance, all routine oil changes are *all paid for*—for 3 years or 50,000 miles. Even normal wear items, like brake pads and wiper blades, are covered.

In short, it pays for virtually everything but gasoline. (An owner still has a few responsibilities, of course; so there's some inevitable fine print about negligence and accidents.)

The Audi Advantage also provides 10 years of corrosion protection, 24-Hour Roadside Assistance. And welcome security at trade-in time. Thanks to a Guaranteed Resale Index that certifies trade-in value.

It is a most impressive list. One no other car maker can match. And one more reason to take the alternate route.

Even The Protection Plan Pursues A Different Path.



*[illegible] gladly share details of Audi's new car and corrosion perforation limited warranties, and the other programs listed above. Roadside Assistance is provided by [illegible] Auto Club Motoring Division, Inc. Guaranteed Resale Index excludes leases. Certain restrictions apply. Not all features described are available on every model. [illegible] call 1-800-FOR-AUDI. © 1989 Audi.

People shopping for a house assume there will always be a home mortgage interest deduction . . . because there always has been one. That could be a big mistake.

House-hunting? Read this first

By Laura Saunders

IS THE TAX DEDUCTION for mortgage interest sacred? Should it be?

Even to ask these questions is to risk sounding un-American or—worse, in some quarters—politically naive. Destroy the American dream of homeownership? Put young families, already hard-pressed, on the street? Deliver a karate chop to home prices everywhere, punishing worthy elders counting on their home equity to cushion their golden years? The last politician who seriously proposed a cut in the mortgage interest deduction was Jesse Jackson. The closest you'll find in Washington today is senior House Ways & Means Committee member Sam Gibbons (D–Fla.), who has run unopposed in the last two elections.

Nevertheless, the possibility of limiting the mortgage interest deduction is being oh so quietly, oh so tentatively discussed by serious people to a degree that would have astonished political professionals a few years ago. "The idea just keeps popping up," says Kent Colton, a very worried official of the National Association of Home Builders, "even though nobody admits to being the father of it."

Washington works in mysterious ways. Recall that even a week before it passed, you could get odds all over Congress that the Tax Reform Act of 1986 was dead. The votes that finally put it over came together in a burst of energy and sudden compromise few had thought possible only days before.

And for all its standing as a sacred cow, remember, the mortgage-interest deduction has already been tinkered with. Under current law, interest on mortgage debt above $1 million is not deductible. Though he says he favors the status quo, Sam Gibbons, a supporter of the $1 million cap, is not entirely in the lobbyists' camp. He got interested in mortgage deduction limits several years ago, he says, after learning that 2 of America's 150 million taxpayers were deducting interest on $10 million mortgages and another had a $15 million note. "I have no objections when the deduction goes for houses," he says. "When it goes for castles, I do."

An interesting thought, that. What's a castle? Says who? In most of the country, less than $1 million will get you something approaching a mansion, if not a castle. Does the American dream extend to a government-subsidized mortgage on a mansion? Congressmen from wealthy districts would surely fight a lowering of the mortgage cap, but would your average liberal vote against it?

Conscientious conservatives would have their own problems. This year lawmakers must come up with $18 billion to $27 billion of spending cuts or extra revenue to meet the Gramm-Rudman deficit target. The mortgage interest deduction for owner-occupied homes now costs Uncle Sam $35 billion a year in foregone tax revenues, third only to pension contributions and accelerated depreciation. This at a time when lawmakers sweat blood to find even $50 million. Could conservatives object to something that would so greatly help balance the budget? And you say you want a capital gains tax cut to stimulate investment? Okay, but swallow this with it.

There's another angle that could give pause to liberals and conservatives alike—doing something about the pathetically low national savings rate. The interest deduction is, after all, a subsidy for indebtedness. It's antisaving, say some economists, and helps explain why the Japanese have better factories than we do.

Such calculations have produced a House resolution backed by the National Association of Home Builders that declares opposition to any lowering of the $1 million ceiling. Its lead sponsor is Representative Marge Roukema (R–N.J.), whose Bergen County district includes New York suburbs where a modest three-bedroom can run $350,000. The home builders are trying to get congressmen to "take the pledge" by signing on as cosponsors. Over a third of the House members have done so, but not one of them is a member of the all-important House Ways & Means Committee.

The threat of congressional action on the mortgage interest deduction is serious enough that Tom Ochsenschlager, a Washington tax expert with accounting firm Grant Thornton, warns of it in speeches around the country: "Nobody believes it, but I just tell them, 'Remember, you heard it first from me and Jesse.' "

Like many in Washington, Ochsenschlager views the present $1 million cap, slipped into the 1987 tax bill at the last minute, as a foot in the door of your $600,000 colonial. "It is such a silly number, and raises so little revenue," he says, "that everyone thinks they just put it in as groundwork for future limits."

Perhaps the thing that spooks real estate lobbyists most right now is the fact that schemes to curtail the deduction are showing up on lists of revenue options, complete with estimates of the dollars they would raise. This, given budget pressures, could be a crucial step in putting a proposal in play. Revenue, cynics assure you, is far more important than merit when it comes to passing a law.

As recently as 1987, estimates of revenues to be generated by various deduction limits didn't turn up on one major list because few took the possibility seriously. "Now," says Ernst & Whinney Washington tax expert David Berenson, "it's like they're looking at it through a telescopic sight but saying, 'We're not going to shoot.' "

If the unthinkable should happen, would it destroy the American dream of homeownership?

No. Look abroad. Canada has never had a mortgage interest deduction and it has 62% homeownership, compared with a 64% rate in the U.S. Japan has none either, but its ownership rate is nearly that of the U.S. "Very few countries give as generous mortgage relief as the U.S., and those that do are mostly high-tax countries like Sweden," notes Richie Zook, a tax manager with Price Waterhouse.

Would less deductibility of interest hurt first-time home buyers? Not necessarily. Government-conferred benefits tend to get capitalized into the price of assets, says Harvard economist Dale Jorgenson, whether the asset in question is a home, a taxi medallion, or tobacco acreage subject to a grower's allotment. Existing players are enriched, but newcomers pay more to get in. Yes, deductions have helped make older homeowners wealthy, but they have also helped push home prices beyond the reach of young people.

Plenty of economists would cheer the deduction's demise. "It's a national travesty," exclaims Jorgenson, despite the fact that he gets "fat" deductions from his Cambridge, Mass. co-op. Former top Treasury official Gerard Brannon likens the interest deduction to "an original sin" that has "resisted baptism."

Why? Because, they say, the current system has a bias toward real estate and away from other investment. It comes from a flaw implanted in the tax code soon after it was enacted in 1913. Congress allowed mortgage interest to be deducted. This made sense, because most taxpayers' personal debt was used to finance farms or small businesses. Paying interest was a cost of doing business.

But then lawmakers neglected the other side of the ledger: the income homeowners get in the form of free rent. Economists call this "imputed rent." Some countries, notably West Germany, actually levy taxes on such rent. But in the U.S. it is a tax-free perk of ownership, and an encouragement to buy ever bigger houses.

Business interest and home interest are both deductible, but while income from an investment in a die-caster is taxed one or more times (depending on whether you buy the tool directly or buy GM stock), the income from a house you live in is untaxed. A capital gain on GM stock is taxable, but a capital gain from homes is almost entirely exempt, thanks to rules on rolling over profits and on selling a home after reaching age 55.

So people invest more in houses than in the stock market. "Houses are great tax shelters—the only one the 1986 tax reform didn't touch," says Jorgenson. "But while tax shelters are great for individuals, they are rotten for society. We are the most overhoused population in the world."

Perhaps you don't agree. You may ask, do we really want to live like the Japanese, families of five in three drafty rooms with thin walls and a kerosene heater? But the same reasoning, while it would go far to justify the tax holiday for imputed rent, doesn't justify a deduction for interest at all.

Why not? Because the interest deduction is based not on how much housing you own but on how much money you owe. So long as you can deduct interest, there's little incentive to save by taking out a smaller mortgage or paying down the one you have. That's why interest deductions are antisavings. The 1986 tax "reform" that phased out consumer interest deductions didn't correct this bias toward consumption. Many taxpayers have simply shifted the debt from cars and credit cards to houses.

Some homeowners take all their equity out whenever they trade up. "The way the code is," says Grant Thornton's Ochsenschlager, "you can buy a house for $100,000 and wait till it's worth $200,000. Then you can buy an identical house in the same development for $200,000, put down the minimum payment and blow $60,000 of your appreciation on a trip to Vegas. I've seen it happen."

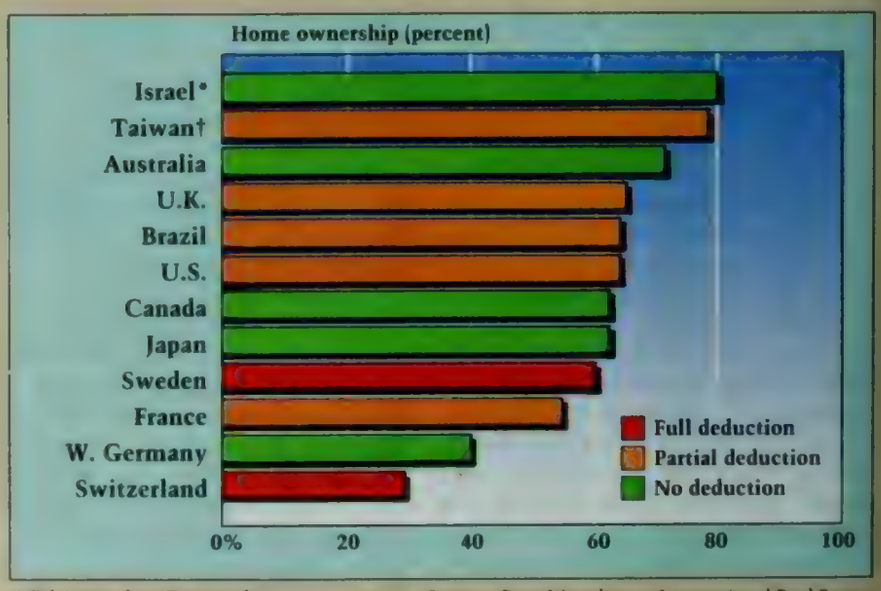
Look at the poor rewards for savers in this country. Invest your Christmas bonus in a bond and you might get 10%, which is 6% after taxes and maybe 1% after inflation. The mortgage interest deduction extends this rough treatment to thrifty homeowners. Pay down a mortgage and you earn 10% on the savings, that being the interest cost you avoid by paying off debt. Again, you get only 6% after taxes—since cutting your interest deduction raises your tax bill—and a meager 1% after inflation. Why bother to save for a crummy 1% return? Take a vacation and enjoy life.

But, protests the Home Builders' Kent Colton, homes are a form of capital formation. "For many Americans, their house is how they build real

Illustrations by Patrick McDonnell

O, lend me a home

Must a nation offer a mortgage interest deduction to have lots of homeowners? Here's a look at the percentage of households around the world owning their own homes. We see no correlation between the deduction, as such, and ownership. Switzerland, with a full deduction, has less than half the rate of no-deduction Australia. And no-deduction Canada has almost the same rate as the partial-deduction (because of the $1 million cap) U.S. Other factors play a role, but is the deduction crucial?



* Tel Aviv only † Taipei only.

Sources: Price Waterhouse; International Real Estate Federation; National Association of Homebuilders

savings," he says. True, up to a point. If you save up $25,000 for a down payment, you are adding to the nation's capital. So, too, if you pay down a mortgage. But would you save any less avidly in a world without interest deductions? You might save more, because debt would hurt more on an aftertax basis. You would put down more and take a 15-year mortgage if you could swing it.

The ivory tower dwellers are right about another thing: Much of the apparent accumulation in housing is a paper gain, not true capital formation. House prices in Palo Alto, Calif., for example, have doubled since 1984. Stanford economist John Shoven tells of seeing a $500,000 "fixer-upper" recently. Some homeowners may not be saving for retirement, figuring they can cash in at 65 and move to Arkansas. This isn't true capital formation because it doesn't actually increase the number of houses or factories.

Congress usually turns a deaf ear to economic arguments until they prove useful politically, of course. Times and revenues being what they are, they may soon prove irresistible.

Chances are slim that lawmakers would repeal the mortgage interest deduction wholesale. That would produce a public revolt, a collapse in house prices and more savings and loan bankruptcies. It would also—heaven forbid—eliminate the housing lobbies as a lucrative source of campaign contributions.

More likely the deduction would die by inches. Among the possibilities:

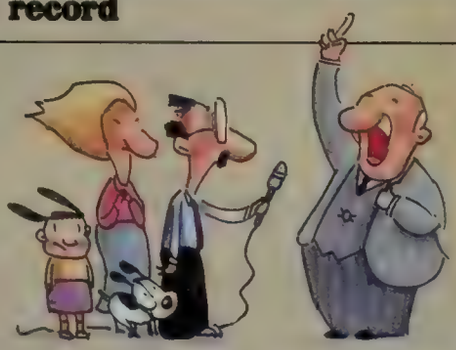
- Limit interest deductions to $12,000 per single return (the first year's interest on a $120,000 mortgage at 10%) or $20,000 per joint return (first year's interest on a $200,000 mortgage at the same rate), for a tax increase of about $1.5 billion a year after 1990. This has the political advantage of preserving the full benefit for the vast majority of taxpayers. But it would hit high-priced urban and suburban areas hard. Note: This option might apply to mortgage interest paid net of all interest received. Thus, if you received $30,000 in taxable bond interest and paid $40,000 in mortgage interest, you could deduct all the mortgage interest.
- Limit the value of deductions to 15%, the lowest tax rate. This raises huge revenues—about $10 billion a year—once up and going, and has been rumored to be the personal favorite of Ways & Means Chairman Dan Rostenkowski (D–Ill.), though he denies it. But it cuts deep into deductions taken by the middle class, as the 28% rate kicks in at $31,000 of taxable income on a joint return.
- Move the mortgage cap down to $750,000 or $500,000. No public estimates yet, but this affects so few voters that it has considerable appeal.
- Phase out the deduction for upper-income taxpayers. No estimates on this either, but it could work like the phase-out of the 15% base rate now in effect for taxpayers with adjusted gross incomes above $75,000.
- As a further nibble, disallow mortgage deductions on second homes, for a tax hike of $300 million a year. This ran into stiff opposition in 1986 from members from Florida, Colorado, and other second-home locales.

What if supporters beat back these and other attacks? In one sense the battle is already lost. Congress, when it imposed the $1 million cap in 1987, did not index it for inflation. "Somebody tried to, and we wouldn't let them," notes Representative Gibbons. The current rate of inflation will halve the value of mortgages covered by the deduction in 15 years.

Any way you look at it, the unlimited mortgage interest deduction is gone. So think again before you buy your dream house, especially if you're counting on the deduction to help meet the payments and the appreciation to fund your retirement. Real estate may not do as well for the next generation as it did for the last one. ■

For the record

FORBES asked public figures about the mortgage interest deduction. Here, excerpts from the responses.



Dan Rostenkowski (D–Ill.), chairman, House Ways & Means Committee (through a spokesman): The chairman has indicated opposition to any changes to the $1 million cap on the deduction as it applies to first homes. He has not indicated a position on mortgages on second homes or home equity loans.

Lloyd Bentsen (D–Tex.), chairman, Senate Finance Committee: I oppose any further reduction in the deduction and do not believe such an attempt would succeed.

Milton Friedman, economist: I see no reason why there should be any deduction for mortgage interest. Its effect is to create a tax differential between owners and renters. Essentially, the government is distorting the incentive to build owner-occupied homes, versus creating other forms of capital. But I think it's politically unlikely Congress will take it away. Unfortunately, that's true of a lot of bad laws.

John Kenneth Galbraith, economist: I'm broadly in favor of making the income tax as flatly, widely applicable as possible, and the mortgage deduction is hard on the people who must rent. But such a change requires the Administration to take a position, and unless it does, I would be rather pessimistic.

Mitch Snyder, advocate for the homeless, Community for Creative Nonviolence: The mortgage interest deduction is as sacred a cow as you can find. It is horribly unjust to subsidize housing for upper-income people while casting adrift many lower-income people. I suggest limiting it and using the revenue to provide affordable housing.

Ralph Nader, consumer activist: I think there should not be a mortgage deduction for luxury mansions and homes, but for the rest of the homes I think there should be. I think that [doing away with or limiting the deduction] is feasible if it's offset by an income tax cut.

Richard LeFrak, builder: Congress may chip at the edges of the deduction, but it affects too many people. The home-building business is basically a domestic industry that uses both skilled and unskilled labor, has a lot of minority participation and so forth. Maybe they'll change the $1 million cap to $800,000, or say it's for one home instead of two. But I doubt the basic deduction will be removed.

Robert A. Georgine, president, Building & Construction Trades Department, AFL-CIO: Obviously Congress has already limited the deduction. My guess is that there will be continued pressure by the tax-writing committees for further limits if other efforts aren't taken to cut the deficit. [But] it is my strong belief that Congress has gone as far as it should and shouldn't create more havoc than it already has.—L.S.

Japanese businesses invest more money in U.S. than in Japanese universities, and are wooing away U.S. scientists to Japan—more proof, says this eminent scientist that . . .

"The Japanese are not superhuman"

A chat with Bell Labs' Arno Penzias

By George Gilder

ARNO PENZIAS, the 1978 Nobel laureate physicist who runs the world's leading research institute, AT&T Bell Laboratories, has now added to his achievements with a book for the intelligent layman.

Ideas and Information: Managing in a High-Tech World (W.W. Norton, 1989) is one of the most lucid and penetrating explanations of the history and meaning of computer technology ever written. "I felt there is a lot of machine worship going on, but in the aggregate we're not getting the return on investment we should," says Penzias of his motivation to write the book. "I think that once people have a better understanding of technology and its limitations, its uses and its power, we will be able to unleash huge new energies in America."

FORBES interviewed Penzias, now 55 and appearing fit and energetic in his Bell Labs office in Murray Hill, N.J. Excerpts follow.

Penzias: We're in a very exciting time here at Bell Labs. We still publish 3,000 or more scientific papers a year. We do all the stuff we did before. The way I try to think of it is that we still produce scientific jewels. But now we make much more jewelry out of them than we used to.

FORBES: AT&T—Bell Labs—invented the laser. It was deep into photonics before everybody else. It was near the lead in producing fiber optics. Yet the Japanese seem to beat us to market with many of the century's best inventions and innovations. Why?

Remember, AT&T was not really a manufacturing company [before divestiture]. When I got this job as vice president of research seven years ago, the Yellow Pages put three times as much money into our bottom line as all of our manufacturing put together. But today—right now—there is a 1.7-gigabit [billions of bits per second] light wave communications system going from New Jersey to Chicago, and that's an AT&T system. We have a 3.4-gigabit system in the works. Those systems are not only world-

Perry Werner

Laureate physicist and Bell Laboratories Vice President Arno Penzias
"When you start interfering with the market, you've got a problem."

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Another problem was we had the only government in the world that cheers when people buy stuff from foreign competitors. When you think of what the Federal Trade Commission did to Xerox, in essence, it said "Set up foreign competitors." They wanted Xerox to give up its patents, so people could buy from a Japanese competitor. It's laughable a decade later, but the same kind of thing happened to us. The Bell operating companies were under court order to reduce the amount of Western Electric purchases, to show that they were independent. Now, though, we lead the Japanese in telephone switches, in software and in custom semiconductor chips.

The Japanese are human. Some of their engineers are lazy—a lot of them work late at night because they get overtime and they can't live on the 40-hour week. People forget that. But you've got to understand the Japanese are not superhuman. You go into Sears, the best cordless telephone you can buy is an AT&T phone. It works better. You try it.

Where do you make it?

We make that one in Singapore, designed at Bell Labs. We manufacture all over the world, just as the Japanese do. I'm not talking particularly about AT&T, but the standard story in the industry is that you can buy parts cheaper there. Because if somebody wants to dump some of their wares, they can't dump stuff here. We've got antidumping laws, right? You don't dump them in Hamburg, either. What do you do with it? You ship it off to Hong Kong, to Singapore. And so, if you have a factory in Singapore you can buy parts a little cheaper.

For example, you've got to charge a certain amount for memory chips over here. So what are you going to do? You stuff the boards in Singapore or Hong Kong, Bangkok or God knows where, Sumatra. Anytime you start interfering with the market, you've got a problem.

For the U.S. to be more competitive, is there not a case to be made that the state should play a larger role in R&D policy?

We have got to get over the idea that research is a substitute for our ability to implement [discoveries]. It doesn't matter if we have the world's best superconductors, for example, because if people demand a 20% return a year we will never invest enough in implementing the superconductors. The Japanese, by contrast, rise slowly and now they can afford to pay $4 apiece for strawberries and $40 million for a not very good Van Gogh painting. Because of the 2% or 3% yield they get every year, because of their patience.

Here's a key question about patience and the long run. One reads that at 18 the average Japanese student outperforms the top 1% of U.S. students in math achievement.

There's a simple answer, and it's going to get me into a lot of trouble, and probably even cost me sales on my book. But it's simple. We've got to throw out our TV sets. We can't afford to double teachers' salaries, and it wouldn't get us better teachers anyway. But I think this notion that people don't have to read anymore is really depressing.

"Once people have a better understanding of technology, its limitations and its power, we will unleash huge new energies in America."

We recently did an article that said we will throw out our TV sets and replace them with digital computers based on fiber optics [see "IBM-TV," Feb. 20]. What do you think?

One of the things we're doing right now is fiber to the home. It is a tremendous business. There are 1 million to 2 million housing starts a year, and telephone companies would probably be willing to pay on the order of $1,000 apiece to wire up a home with fiber. That's a $1.5-billion-a-year revenue stream that's walking in off the street. And everybody and their cousin is pursuing this, including AT&T. We've got the best technology. I'm excited about the future. But in itself, it won't solve the problem of math scores.

The great advantage that the Japanese have over us is a much better prepared high school graduate. But their university system is so far behind ours they are not even in the same league. Japanese businesses actually invest more money in U.S. universities than they invest in Japanese universities.

Our universities attract some of the best students from all around the world, from India, Japan, everywhere. Do immigration laws inhibit you from using this invaluable resource?

Well, we've taken away their students. So there are some government restrictions to move them back. Because if we go to a foreign country, and we say, "Look, we'll educate this person for you," then we steal the person afterward, it's not fair.

It sounds like the antitrust story all over again: We think it's unfair to compete. Nothing is more important than the worldwide competition for immigrants.

We have a tremendous advantage. But the Japanese understand it, and now they are trying hard to hire our people into Japan. They've built research labs here to compete. NEC just started one down in Princeton. They also have a program back there in Japan. They're building special apartment buildings in Japan to house Americans, who will go there for a few years very heavily subsidized. They get them all the equipment they want, and then they'll come back after a few years of working there and work in the American subsidiary of a Japanese company.

The Japanese value incremental improvement far more than we do. And that's a big strength of theirs.

AT&T is almost entirely out of the memory chip business now. Why?

One of the things we've learned at AT&T—it's a very important lesson—is that we can't do everything. With the resources that we have it's more important to do light-wave devices and application-specific chips. And remember, [in memory chips] we're going up against people who are better financed than we are.

Why are they better financed?

Because Japanese bankers are more patient. I may offend some of your readership, but that gambling den on Wall Street is paid for out of the productive part of the business sector. So is a huge defense bill. I'm not saying we don't need it. But what the economy gets when you spend, say, $18 billion on an aircraft carrier is an aircraft carrier. Period. Now, if you want an aircraft carrier, fine. But don't pretend it's going to give you some pots and pans, or a TV set, or a better lathe.

If there is one thing where I say I'm an expert it is on the way innovation is created in this society. And I simply have yet to find a factual basis for the [civilian goods from military products] fallout legends which I find in the press.

But if you exclude the defense burden, we find that our research and development spending is as big as Japan's. Our society is producing more R&D than Japan is producing. ■

What's this? An insurance company not singing the blues? Unum, of Portland, Me., has beaten industry heavies to some nifty high-profit niches as a specialty insurer.

"We understand risk"

By Laura Jereski

JAMES ORR, chairman and chief executive of Unum Corp., is a rarity among insurance executives. His Portland, Me.-based company dominates a market that's neither in the doldrums, like the property and casualty sector, nor under attack from zealous reformers, as is the auto insurance crowd. Unum has fought off the likes of Allstate and Cigna to take, and hold, a commanding share of the nation's long-term disability business, an area that is growing at a 15% annual clip.

One reason for the growth: Of the 30 million or so professional and white-collar workers eligible for such policies, only 20 million are covered so far. And with over 30% of the in-force cases and nearly 17% of annual premiums, Unum's share of that market is greater than that of its four largest competitors combined.

Even so, James Orr can't rest easy. Health care spending is coming under special scrutiny at many firms, especially the small and professional companies that Unum targets. How does it convince these employers that long-term disability is worth 2% of their payroll? For one thing, Unum invests some $13 million a year putting more muscle into so-called benefits management—catching malingerers and helping claimants get Social Security payments coming to them—thereby lowering Unum's payout and the client's premiums. This practice includes investment in rehabilitation programs—such as vocational training, career counseling and occupational and physical therapy—to shorten the "long term" in its disability coverage.

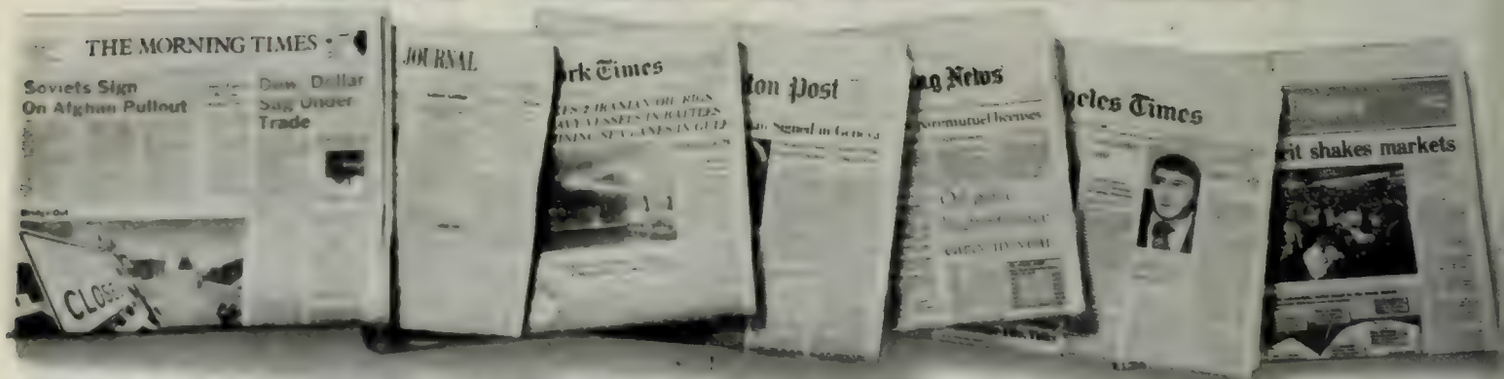
Is it working? Competitors have tried and failed to break Unum's powerful grip on the business. Allstate even cut policy prices as much as 15% to lure Unum's accounts away. Result? Allstate found the business so unprofitable that it dropped out last year. And no one has made a dent in Unum's share.

Unum's most powerful weapon is a database with 26,000 clients and 2.8 million insureds, compiled over 16 years. "I envy their database, which is indeed superb," says Lawrence Jen-

Jim Daniels

Unum Corp.'s chairman and chief executive, James Orr
Successfully fighting off the likes of Allstate and Cigna.

MOST OF WHAT WE HAD TO SAY ABOUT BUSINESS THIS MORNING WAS UNPRINTABLE.



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(All Times Eastern)	1st ½ hr	2nd ½ hr	3rd ½ hr	4th ½ hr
Top Business News	6:30	7:00	7:30	8:00
Financial News	6:35	7:05	7:35	8:05
Small Business News	6:40	7:10	7:40	8:10
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
Internat'l Business Line		7:25		

ESPN
THE TOTAL SPORTS NETWORK

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son, vice president of marketing in Cigna's special benefits division. That volume of data helps Unum price its risks better—vitally important when you are writing policies with unpredictable, lingering tails. The result: Unum's LTD business consistently returns 20% or more on equity, much better than others, such as Guardian or Mutual Benefit.

If Unum has a problem, it is that none of its other businesses do nearly as well. Only one-third of the company's 1988 premiums of $1.5 billion, but nearly all its $129 million aftertax operating income, comes from disability insurance. Its group pension business, with revenues of nearly $1 billion, and the smaller individual life and disability divisions pull down Unum's overall margins to 6%.

That's why Orr wants to keep building those specialty niches.

Unum's LTD business consistently returns 20% or more on equity while Cigna and others eke out barely satisfactory returns.

Among its new products: voluntary long-term disability that employees buy through their companies but pay for themselves, and a long-term care policy targeted at senior citizens that pays out based on the degree of disability. By 1992, says Orr, he expects this product to pull in $125 million in premiums, as much as individual LTD brings in now.

New products and ventures aside, Unum has become slimmer and more focused since Orr joined the company in 1986. Fresh from the merger of Connecticut Bank & Trust into Bank of New England, Orr was brought in to smooth Unum's transition from a mutual company, owned by its policyholders, to a public company. "It's a very similar business. Management of the balance sheet, management of risks and reserves," says Orr about his move to insurance. Within a year, he had cut $25 million out of annual expenses by trimming the work force and dumping moneylosers like group medical policies. He has also bought back some 7 million shares to pare down excess capital.

Orr's hand is now everywhere—one of the reasons analysts like Drexel's Michael Takata like the stock. At a recent 29½, he says, the stock not only is selling below book value of $32 but doesn't even give fair value to Orr's conservative management.

"We understand insurance risk," says Orr. Just ask his competition. ■

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When fish prices were rising, Seattle fishermen were all for free markets. But now that some prices have turned soft, they complain about foreign poaching and look for ways to curb supplies.

Fishy arguments

By Marc Beauchamp

At Tokyo's sprawling Tsukiji fish market last fall prices for cod, turbot and pollack plunged. Pacific cod, for example, dropped from 95 cents a pound to 50 cents. This was bad news for Seattle's booming deep sea fishing industry. The sharp drop in prices came despite a seemingly insatiable Japanese market for cod, pollack and other so-called bottomfish. Japanese per capita consumption of fish is more than 50 pounds per year, over three times the U.S. level, even though U.S. fish consumption has been rising.

Not surprisingly, many Seattle fishing people blame the nasty foreigners. Terry Baker, president of Arctic Alaska Fisheries Corp., which catches, processes and markets bottomfish, contends the price drop is the result of poaching and black market trade of bottomfish in Japan. A year ago Edward Evans, executive director of the 24-member Alaska Factory Trawler Association, flew over the Bering Sea and videotaped half a dozen Japanese boats fishing illegally 7 to 12 miles inside U.S. waters. Last summer the *Mainichi*, one of Japan's leading newspapers, published an exposé on the illegal fishing, and the Japanese government pledged to intervene. But the poaching continues.

No question: The Japanese are less than scrupulous in their regard for fishing laws. Under cover of Alaska's 20-hour-long winter nights, huge Japanese factory ships lumber into U.S. waters in the Bering Sea, one of the world's most fertile fishing grounds. Decked out with millions of dollars' worth of state-of-the-art sonar equipment, the Japanese probe the thousand-foot depths for schools of Alaska pollack, Pacific cod, black cod and other bottomfish, which are caught, processed and frozen at sea.

This is high-tech poaching at its

Arctic Alaska Fisheries Corp. President Terry Baker
Blaming lower prices for fish on Japanese poaching.

Gary Benson

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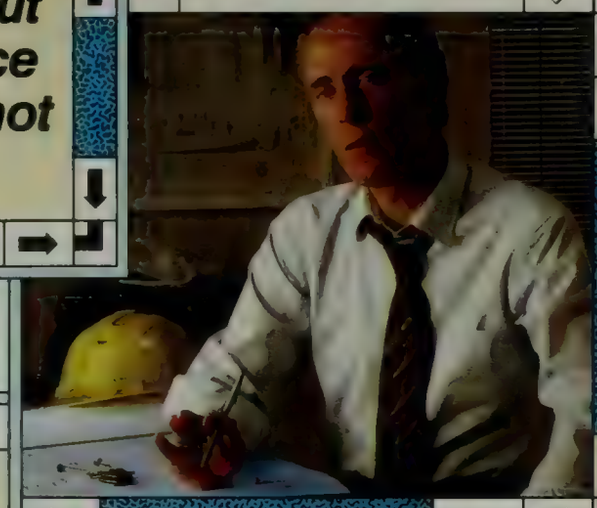

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Gary Benson

Sorting frozen pollack at Seafreeze in Seattle
From the Bering Sea to Burger King.

Timothy Hall

Part of Arctic Alaska's bottomfish fleet
Braving treacherous seas for a $1 billion catch.

most lucrative in some of the world's most treacherous waters. Each year this part of the Bering Sea—which is American territory—yields well over $1 billion worth of fish (at wholesale prices) for the tables of seafood-hungry Japanese and Americans.

In a way, the Japanese are fighting to keep what was always theirs. For decades this was a de facto Japanese fishing ground. The American fishing fleet, mostly small operators based some 2,000 miles southeast in Seattle, simply was not interested in bottomfish; there was more money—and easier markets—for salmon and crab.

That changed under the 1976 Magnuson Act and related legislation, which declared a 200-mile exclusive economic zone around the U.S. and gave preference to U.S. fishermen over foreigners.

The boom in demand, coupled with the new legal protection, persuaded fishermen in Seattle and elsewhere to plow fortunes made in salmon and crab into new factory trawlers, ranging from $10 million to $30 million and up, which spend more than ten months a year in Alaskan waters. In 1980 there was only one American-owned bottomfish factory trawler working Alaska's waters. Today there are close to 50 ships, representing some $1 billion in capital.

This year Seattle's so-called distant waters fishing fleet, which also includes salmon and crab boats, will contribute $2 billion (and 14,000 jobs) to the Washington State economy, versus $1 billion in 1980.

To handle the huge trawlers, the Port of Seattle recently completed a $13 million renovation of Ballard's Fishermen's Terminal, which includes a 900-foot dock. Seafreeze Limited Partnership, the Seattle area's largest seafood processor and cold storage company, now stores a monthly average of 25 million pounds of seafood, most of it pollack. That's up from 10 million pounds in 1985. Seafreeze processes pollack into Mrs. Paul's fish sticks, patties for Burger King fish sandwiches, breaded nuggets for federal school lunch programs and fillets for airline meals.

Arctic Alaska Fisheries Corp., traded on the Amex since last spring, operates the largest American bottomfish fleet, with 20 trawlers and processing ships. Most of its bottomfish catch ends up in Japan, much of it as *surimi*, the processed fish paste used to make imitation crab and other products. Arctic Alaska's revenues, $125 million last year, have grown fivefold since 1985.

But drooping prices threaten the prosperity. For example, Arctic Alaska's stock has fallen from $15 to a recent $7.25. Hence the renewed cries about poaching and the demands for government action. These jingoistic claims have a hollow ring. It's what one often hears when business people want to repeal the consequences of increased supply on prices: Blame the foreigners.

This January the North Pacific Fishery Management Council, a government-industry group, tacitly admitted that oversupply was the problem, not foreign poaching. The council tentatively approved a limit on the number of American factory trawlers, declaring that only ships now in the pipeline—like the 640-foot *Phoenix* being built by Seattle's ProFish International, Inc.—will be allowed in.

It's an old story: using political and economic clout to keep supplies down and profits up. Of course, the fishermen wrap themselves in self-righteousness. Fisheries, argues Dayton Alverson of Seattle-based Natural Resources Consultants, are a national resource that should be managed for the long term, much like national forests. A tired argument: Business people always favor free competition except when it comes to their front door. ■

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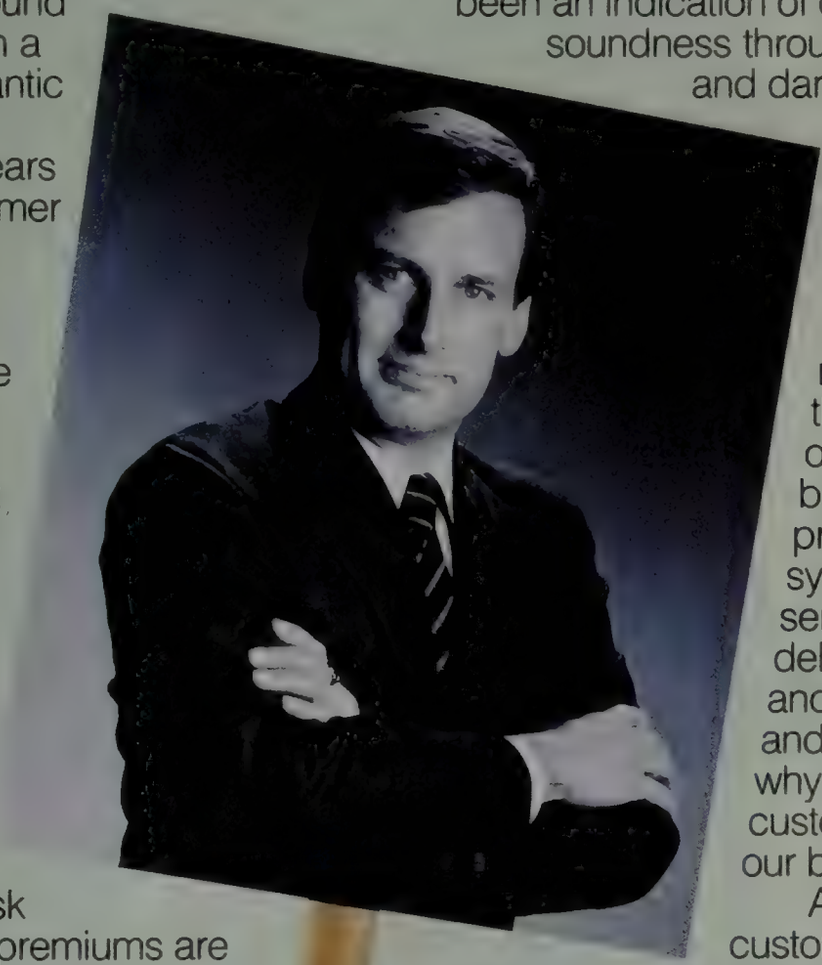

After all, wasn't customer protection the whole idea of insurance in the first place?

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What insurance is supposed to be.

A Cathay Pacific Airways carrier on the tarmac in Hong Kong
Bad news from Beijing after 1997, and the planes can fly away.

Mary Beth Camp/Matrix

Most airlines worry about load factors that are too low. Hong Kong-based Cathay Pacific frets—a bit—that its factor is too high.

The right kind of problem

By Andrew Tanzer

THE CRUSH, Rowland Cobbold recalls, began in October 1986. "The traffic didn't drop off in the winter like it usually does," says Cobbold, who is the marketing director of Cathay Pacific Airways Ltd. "It continued into 1987 and 1988, and it's still there."

The surge in Asian tourist and business travel that Cobbold marvels at has transformed his Hong Kong-based airline into the world's fastest-growing and highest-margin major international carrier. Passenger revenues have nearly doubled over the past two years, and analysts believe Cathay earned $360 million aftertax in 1988 on sales of $2 billion—a net margin in excess of 15%. AMR Corp., owner of highly profitable American Airlines, last year netted a bit over 5% of revenues aftertax.

Cathay Pacific has also benefited handsomely from currency gains. It books most of its revenues in such strong currencies as the yen and the New Taiwan dollar while paying its labor and fuel bills in relatively weak U.S. and Hong Kong dollars.

A stronger dollar and Hong Kong's growing labor shortage may soon begin to offset this advantage, but Cathay has other things going for it, notably excellent management and the fact that the carrier serves the world's most dynamic economic region. With a 31% share of tourist arrivals in Hong Kong, Cathay is reaping the gain of a tourist boom spurred by surging disposable incomes in the region. The number of Japanese visitors, many of them on weekend shopping sprees to escape extortionate consumer prices at home, jumped 20% in 1988, to 1.2 million—many of whom are adding to the fortunes of local merchants like Dickson Poon *(see story, p. 96)*.

Taiwanese arrivals in Hong Kong trebled last year, to 1.1 million, in the wake of the late 1987 decision by the Taiwan government to permit its citizens to visit the People's Republic of China via a third country. Cathay, which flies to both Taipei and Beijing from Hong Kong, has become the airline of choice for Taiwanese travelers to the mainland. The next boom may come from South Korea: The Seoul government removed most restrictions on foreign travel for its citizens at the beginning of this year.

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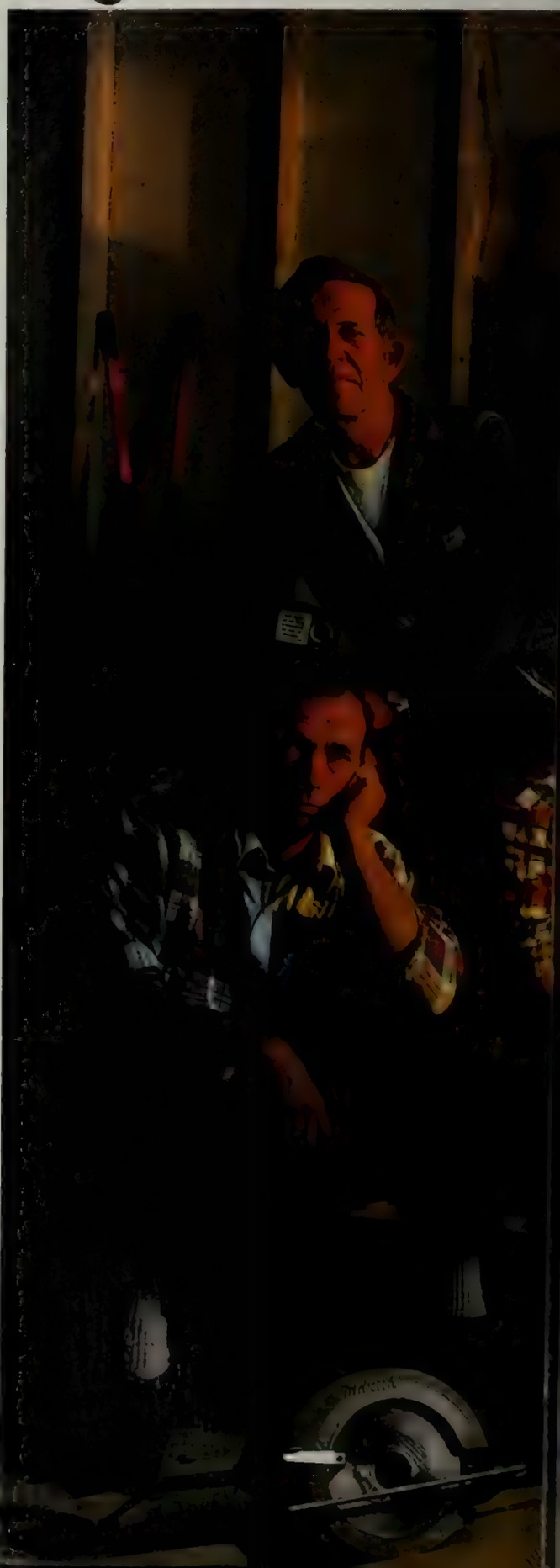

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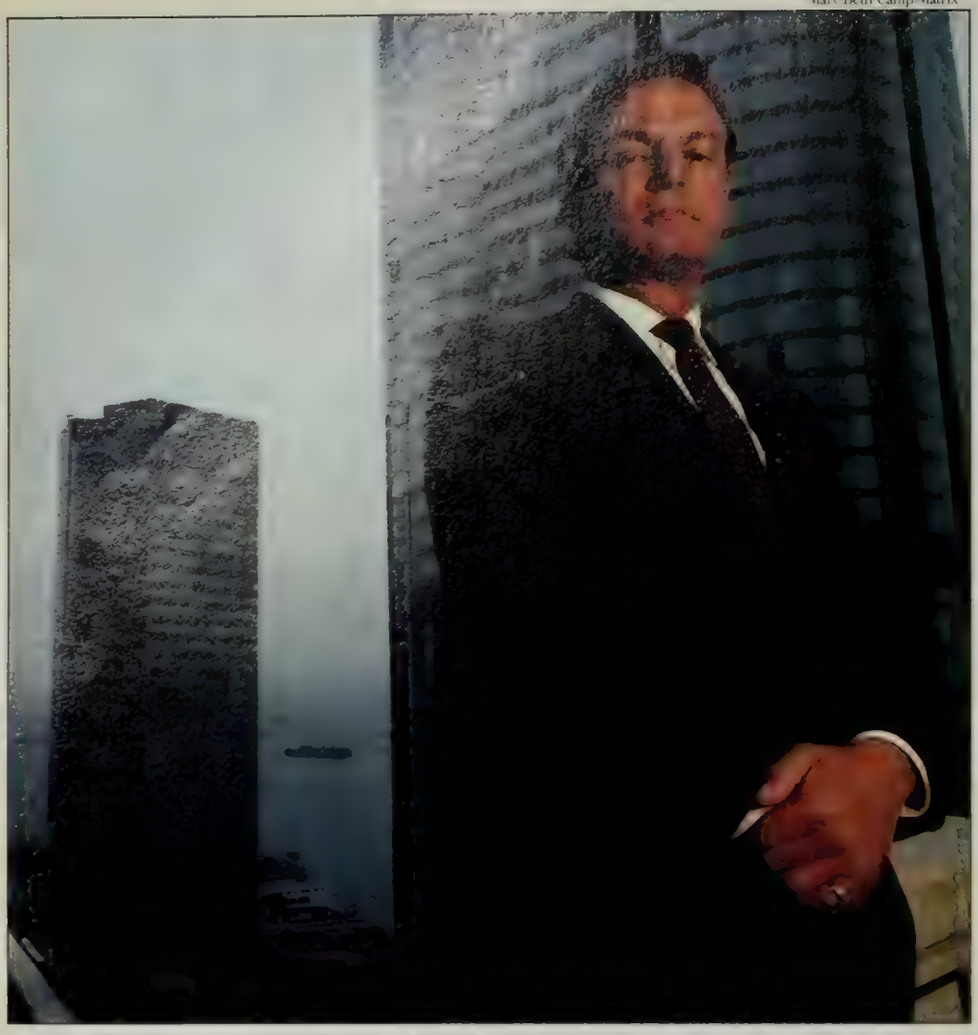

Cathay Pacific Managing Director Peter Sutch
Waiting for a transpacific "bloodbath."

Cathay achieves enviable equipment utilization rates in part by using for intra-Asia traffic the same 747s it flies to North America and Europe. For operating and maintenance efficiency, Cathay flies only two types of wide-bodied aircraft: the Boeing 747 and Lockheed Tristar, both powered by Rolls-Royce engines. Efficient use of equipment and having lots of travelers pay off in superior load factors. With a break-even load factor of 55%, Cathay's average passenger load factor last year was 77%—this despite a 24% increase in seat capacity in 1987-88. American Airlines' load factor last year, by contrast, was about 65%.

From marketing man Cobbold's point of view, Cathay's high load factor is not unalloyed good news. When the ratio tops 70%, he explains, the airline starts to turn away passengers. An estimated 40% of Cathay's passengers are business travelers who pay for and expect to get superior service, and certainly don't appreciate being turned away. Almost as a defensive response, then, Cathay expects to double its fleet to 60 wide-bodied aircraft by 1995. Cathay will take delivery of 9 long-range 747-400s in 1989-91 and has options for 9 more of the $125-million-a-copy aircraft in 1992-94. The carrier will shortly announce a $2 billion order for 24 aircraft to replace its fleet of aging Lockheed Tristars. The leading candidates for the Tristar replacement are McDonnell Douglas' stretched MD-11 and the Airbus A-330.

Cathay was founded in Hong Kong in 1946 by two adventurers, an Australian and an American, who flew transport planes over the Himalayan "Hump" from Assam to Chungking in World War II. The buccaneers, Sydney de Kantzow and Roy Farrell, met while tiger hunting in India and invested $30,000 to start the airline by converting a war-surplus C-47 military transport to handle civilian cargoes. The plane was used to fly woolen goods from Sydney to Shanghai.

In 1948, strapped for cash and under pressure from a nationalistic British government, the cofounders sold a controlling interest in Cathay to the forerunner of Swire Pacific, the Hong Kong-based trading, shipping and property arm of the venerable London-based Swire Group, which has run the airline ever since. The cofounders subsequently left the company, and today Swire holds a stake of just over 50% in Cathay, while 21% is publicly traded. Another 16% is owned by the Hongkong & Shanghai Banking Corp., and 12.5% is held by China International Trust & Investment Corp., a Beijing-owned overseas investment company.

The regional travel boom helped propel Cathay's stock up over 60% in 1988, against a 17% increase in the Hong Kong Stock Exchange's Hang Seng Index. Yet the stock still trades at only 10 times estimated 1988 earnings, compared with 14 times earnings for regional archrival Singapore Airlines and a ridiculous 146 P/E for Japan Air Lines, a far inferior carrier.

Part of the reason for that disparity is uncertainty about what will happen to this most capitalistic of airlines when Hong Kong falls under Chinese sovereignty in 1997. Cathay's owners are betting that business will be at least as good as usual. An aviation clause in the 1984 Sino-British joint declaration states that Hong Kong will have autonomy over its aviation matters after 1997. Says Peter Sutch, Cathay's energetic managing director: "We're spending $4 billion over the next seven years, which I think speaks well of the Swire Group's confidence in Hong Kong." Besides, if Beijing does move against the company, Cathay would at least be able to fly its planes away to friendlier bases.

Right now, in any case, Cathay faces an even more perplexing uncertainty—which new routes should it fly? While many of the region's government-owned flag carriers fly "public service" routes, Cathay flies only profitable routes with substantial business travel. It has shunned heavy competition for the tourist-dominated Honolulu traffic, for example, while offering nonstop long-haul routes such as Hong Kong-London aimed at business people.

But don't expect this aggressive airline to shy away from the cutthroat transpacific market forever. The arrival of the workhorse 747-400s, capable of flying 16 hours nonstop, will enable Cathay to fly nonstop year-round to destinations such as San Francisco and Los Angeles.

Peter Sutch thinks a transpacific shakeout will clear the skyways for Cathay. "I believe we're going to see a bloodbath like we saw across the Atlantic in the early 1980s," he warns. "Too many carriers are just after market share. In a couple of years there'll be a more viable market across the Pacific with more sensible pricing."

Bad news for price-conscious consumers, perhaps, but more good news for Cathay Pacific's shareholders. ■

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TRAVEL
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FIRST-CLASS TRAVEL 1989

By Angelo Anthony

Travel changed forever ten years ago. When the federal government deregulated the domestic airline industry in 1979, it's no overstatement to suggest that all hell–and the emphasis is on hell–broke loose.

The "great deregulation" allowed airlines to start new service, abandon old routes, charge any price they wish, compete freely and impose almost any service rules and restrictions they wished. Deregulation brought new concepts like "business class" and "frequent-traveler programs" and "MaxSaver" fares. The hotel and car-rental industries, while not a legal party to airline deregulation, were swept along nonetheless. They've been through a decade every bit as turbulent as the airlines.

What's the verdict on deregulation ten years out? Going strictly by the numbers, it's been an unprecedented stroke of genius.

Deregulation has been "a remarkable success," Donald Burr, founder of PEOPLExpress, recently told an audience of aviation executives in New York. The airline industry is "carrying twice as many people today as we were ten years ago. Air traffic is double, and isn't that our job?"

But Burr's statistical analysis lacked the same thing his now-defunct airline was missing: a sense of service. While twice as many people travel now compared with a decade ago, most don't travel nearly as well as they used to. The travel industry – both here and abroad – has been plagued by a decline in service as unprecedented as the numerical success of deregulation.

"Too many companies looked at their operations and tried to cut costs to save a few pennies. They consciously reduced service in an attempt to maximize profits," says Robert W. Quinn, director of communications for Sheraton Corp., one of the world's largest and most service-conscious hotel chains. "Too many companies don't realize that the only way to maximize profits is to improve the quality of the product you deliver. We've spent in excess of $10 million, not counting man-hours, in the last two years on a program to ensure guest satisfaction. It's been worth every penny."

UPGRADING THE TRAVEL EXPERIENCE

One way to guarantee that you get all the quality and service you deserve when you travel on business or for pleasure is to take full advantage of the programs hotel companies and airlines have created specifically for that purpose.

The frequent-traveler plans are the most visible and valuable programs of this type. For too many years after American Airlines created the AAdvantage Program, the first frequent-flyer system, in 1981, the plans were mistakenly viewed as vehicles to win a bounty of free travel. The programs do award freebies, but savvy travelers always have known that the plans offer valuable perks infinitely more psychically soothing than free airline seats or hotel rooms.

Frequent-traveler programs are larded with methods to upgrade the travel experience for little or no extra cost. The best airline frequent-flyer plans offer travelers a variety of ways to upgrade from plebeian coach class to the tonier and more sophisticated business and first classes. The hotel frequent-stay programs are excellent ways to move up to suites from standard rooms.

Consider the first-class amenities offered by the TWA Frequent Flight Bonus Program, for example. After flying just 5,000 miles in a 12-month period – that's the equivalent of just one transcontinental roundtrip – Frequent Flight members receive a White Bonus Card. It entitles them to unlimited free upgrades to TWA's Ambassador (business) Class on widebody domestic flights whenever they purchase unrestricted coach tickets.

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month period or four transatlantic flights during one calendar year. Gold Privilege Card holders bypass airport crowds by going directly to separate check-in counters. They receive unlimited free upgrades to first class on all TWA domestic flights when they buy unrestricted coach tickets. And they receive free upgrades to Ambassador Class on international flights when they purchase unrestricted economy fares.

American's AAdvantage Program allows members to claim a roundtrip upgrade to first class on a flight within the continental U.S., Canada, Mexico or the Caribbean at the 10,000-mile or 20,000-mile award level. Program members who have purchased a roundtrip economy-class ticket on an American flight to Europe can claim a 40,000-mile award and upgrade to business class; members who have purchased a roundtrip business-class ticket can use a 40,000-mile award for an upgrade to first class.

Members of the United Airlines Mileage Plus program can upgrade from coach to first class by buying packets of five "one-way upgrade certificates" for just $110. Each certificate is good for 1,000 miles of upgraded travel. Certificates can be used in conjunction with any published United coach fare and can be redeemed for first-class travel to any destination in North America or Hawaii.

Stouffer Hotels recently revamped its Club Express frequent-guest program and offers members an array of gifts such as U.S. Savings Bonds, merchandise certificates redeemable at major [illegible]rs and free "Breakations" pack[illegible] at Stouffer Hotels and Resorts. But the program is also a valuable way to improve and upgrade travel. All Club Express members who check into a Stouffer property receive an automatic free upgrade to the best room available or a room on the hotel's exclusive "club floor." They also receive instant check-in at a separate registration desk position and express check-out. Club Express members also command fitness center privileges and evening turn-down service.

The Sheraton Club International program is extremely flexible and offers a wide choice of merchandise and travel awards. But the Club's $25 annual membership fee brings an even more impressive list of valuable perquisites: free upgraded accommodations when available at 435 Sheratons in 42 countries, a complimentary daily newspaper delivered to your room, express check-out privileges and extended check-out until 4 p.m. the day of departure.

Membership in Westin Hotels and Resorts' frequent-stay program, Westin Premier, was by invitation only, but Westin opened the program to all travelers on March 1. The Premier program also offers free hotel stays and vacation packages, yet the upgrading perks are frequently more compelling to sophisticated travelers. Premier members call a private 800-number to make reservations, have separate check-in facilities, and enjoy evening turn-down service, complimentary daily newspapers, and special food and beverage service offers at participating Westin properties.

NEW WRINKLES FOR TRAVELERS

Another way to improve the overall quality of your business and leisure travel experience is to make use of the exclusive new products and services

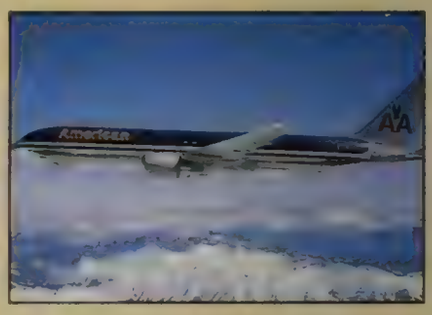
AMERICAN GOES INTERNATIONAL

American Airlines wants to be a "major international carrier," and it's pursuing that goal with the same determination and dedication to quality that made it one of the nation's dominant domestic airlines.

Even though it began European service fewer than three years ago, American's operations in Europe will reach 119 flights a week to 13 cities when a huge overseas expansion begins in May.

"We offer both business travelers and vacationers something special," senior vice president of marketing Michael W. Gunn says about American's continental success story. "We carried more than a million passengers between the U.S. and Europe in 1988. We expect to far exceed that number this year."

American's expansion begins May 1 when the airline launches daily nonstop service between Chicago and Stockholm and between New York and Lyon, France. Both flights are unique: The Stockholm service is the only nonstop from Chicago; the Lyon service is the first nonstop from any U.S. city. On May 11, American begins daily nonstop flights between Chicago and New York and Brussels. The Chicago flight continues to Düsseldorf; the New York flight continues to Hamburg. The flights allow travelers from either U.S. city to reach either German city via the Belgian capital.



American's expanded European service uses widebody Boeing 767-200 jets

American will use wide-body Boeing 767-200 jets on all the new routes. American already serves Tokyo; Paris, Frankfurt and six other European cities; three cities in Canada; seven points in Mexico, and more than 15 destinations in the Atlantic and the Caribbean. ■

This will get you to Tokyo in about 14 hours.

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Sheraton Inns. They offer travelers on the road a name they can trust and qu they can count on.

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Sheraton Suites. Coming soon, suite hotels defined not just by extra space, but by extraordinary service.

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our different Sheratons with a single philosophy: "Little things mean a lot." A osophy that embraces the true spirit of service.

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ou'll be staying at a place where people truly believe that little gs, no matter how seemingly small, mean a lot. ©1989 The Sheraton Corporation

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TRAVEL 1989

offered by a few advanced and pioneering travel-industry organizations.

Starting next month, for example, the Hertz Corporation is unveiling a procedure sure to revolutionize the rental-car market. Hertz #1 Club Gold Service goes right to the heart of what travelers expect from a car-rental firm: speed, efficiency, personalized service and minimal red tape.

Hertz #1 Club Gold Service allows travelers to bypass bureaucratic car rental procedures

For a $50 annual fee, Hertz will sign travelers to an agreement that acts as a master contract for all future car rentals. Travelers never need to sign another piece of paper. Hertz #1 Gold members make car reservations by calling an exclusive toll-free number. Then the exciting new features begin:

- When members arrive at an airport offering Gold Service, they head directly for a shuttle bus that delivers them to a special #1 Club Gold rental area
- Computer-generated information on electronic signboards direct travelers by name to nearby stalls where their cars are waiting.
- Car engines are running, air conditioners or heaters are on, and trunks are open and ready for luggage. A computer-generated, personalized rental contract is waiting for each traveler in the car assigned to him.
- The traveler drives the car to the gate, stops to show a valid driver's license and then departs.

The #1 Gold Service eliminates all the hassles from car rental: There are no counters at which to wait; no clerks with whom to deal, no keys to collect, no parking lots to roam, and no contracts to sign. Hertz has invested more than $20 million to develop #1 Club Gold Service and hopes to have it operating at more than 30 airports by the end of the year.

Gold Service "takes all the bureaucracy out of renting cars," says Hertz chairman and chief executive Frank A. Olson. It is "proof of Hertz's dedication to the concept of total service."

Many travelers have also discovered they can improve their lives on the road by changing the type of lodging they use. For the price of a single room at other hotels, for example, Embassy Suites offers a more amenable lifestyle: a two-room suite with separate living room, dining/conference table, wetbar with mini-refrigerator and microwave oven. Guests receive a complimentary American breakfast each morning and free cocktails each evening.

Embassy Suites, the nation's largest all-suite hotel chain with 87 properties in 67 cities, is clearly a hit with travelers. Readers of *Consumer Reports* recently rated Embassy best in the middle- and higher-priced category. "I believe we offer travelers a first-class lodging alternative," says Embassy Suites executive Joan H. Cronson. "We turn a routine hotel stay into an enjoyable getaway."

BETTER SERVICE BY DESIGN

Of course, the best way to ensure truly first-class travel experiences is to know which hotels, airlines and car-rental firms specialize in providing quality service.

No travel company is rated higher for quality and service than the Toronto-based Four Seasons Hotels group. Even though it operates just 21 hotels, it routinely claims more coveted "five diamond" ratings from the American Automobile Association than any other chain. And six Four Seasons properties – more than any other hotel companies' – landed on the prestigious "Top 50 Hotels in the World" list compiled by *Institutional Investor* magazine. Five of the top eight hotels in the Americas cited by the magazine's panel of financiers were Four Seasons properties.

"Our purpose has been simple," chairman and president Isadore Sharp says. The firm "only operates medium-sized hotels of exceptional quality, and [we] make them the best wherever they are." Among the company's gems are The Pierre in New York (ranked 23rd

The Four Seasons Houston is one of just 21 superlative Four Seasons Hotels in North America and England

best in the world by *Institutional Investor*); the Four Seasons hotels in Washington (24th), Toronto (32nd), and Montreal (33rd); the Ritz-Carlton in Chicago (25th), and London's Inn on the Park (43rd).

"We recognized very early that consistency of service and standards is everything," explains Sharp. "We are obsessed with customer satisfaction."

Another travel company obsessed with the needs of the customer is the new Avis. After decades of conglomerate ownership, Avis became an employee-owned company late in 1987. The result was an immediate, substantial and quantifiable improvement in the level of service Avis offered to car renters.

In 1988, the first full year of employee ownership, Avis recorded a 16% increase in transactions and a simultaneous 35% decrease in service-related complaints, says Russell James, vice president of corporate communications. And that's compared to the previous year in which Avis already had exceptional customer service performance. How did Avis service improve so dramatically in just one year?

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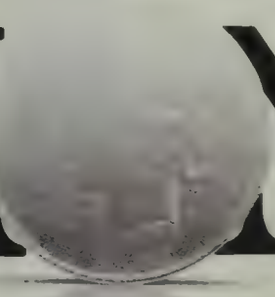

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Avis employees now own the company and customer service has been sharply upgraded

"It's our company now, and that makes a difference. You just work harder to service the customer when you're an owner," James explains. "Our people made our company better. The improvements we registered are the kinds of things people changed: shorter waiting times at the rental counter, more accurate shuttle bus schedules, getting customers the kind of car they requested. Those little things made us better, not some magic with mirrors. Technology has always been extremely important but even more important are our people. Employee ownership has made Avis better, faster, smarter and more concerned about taking care of the customer and giving him exactly what he wants and expects."

At United Airlines, several years of hands-on experience has made the carrier's flights to Pacific Rim countries substantially better than before. United had minimal foreign-service experience when it purchased Pan Am's Pacific operations several years ago. But now the airline is showing what the nation's largest domestic carrier can do overseas, too. "We're beginning to emerge as a world-class carrier," says Jean Patterson of United's international marketing programs division

Among the improvements United has made in recent years is a $54 million refurbishment of all planes on the Pacific routes; a substantial expansion of "Red Carpet Club" lounge facilities at Asian airports; more closet and storage space on the Pacific fleet and new china, glassware and menus for the in-flight meal service; "concierge service" for first-class passengers, and a roomier, more exclusive business-class cabin.

United's biggest improvement of all will begin this summer when it launches Boeing 747-400 service on the Pacific routes. United eventually plans to have 15 of the newest-generation 747 widebody jets serving cities like Tokyo, Hong Kong, Sydney, Seoul, Taipei and Singapore.

United begins widebody Boeing 747-400 service to the Pacific this summer

British Airways is also spending lavishly to upgrade its service. Eighteen months ago, the British flag carrier invested $40 million to revamp its Club Class (intercontinental business class) and Club Europe (intra-European business class) cabins. Now it has launched an unprecedented $40 million program to completely remake its already-luxurious first-class service.

Says Sir Colin Marshall, British Airways chief executive: "First class acts as an unrivalled shop window for our product among an influential and highly discriminating group of purchasers."

The new first-class service, launched March 1, is the outgrowth of two years of exhaustive research into the desires, needs and requirements of upscale travelers. It includes:

- Redesigned cabin interiors with thick-pile woolen carpet, chrome fittings, spotlights and heavy drapes to reduce noise.
- Improvements to BA's luxury sleeper seats. The new push-button-control seats are 20 inches wide, offer 62 inches of pitch (legroom), and recline to the near-horizontal position. New swivel tables allow passengers to move around freely even during meal service.
- An improved first-class menu offering passengers a choice of gourmet six-course meals, lighter cuisine or hot snacks. The menu will be complimented with 11 wines as well as vintage champagne. Food service will be presented on Royal Doulton fine bone china with silver plate cutlery.

British Airways chief executive Sir Colin Marshall in the airline's new first-class sleeper seat

But perhaps no company has actively pursued quality service so aggressively as Sheraton. It has even embarked on a novel plan to measure the quality and "guest satisfaction" capability of each of its hotels. "We kept hearing that service was such an intangible. We didn't agree," says communications director Quinn.

The Sheraton Guest Satisfaction System is a comprehensive survey of every sixth guest at virtually every Sheraton hotel around the world. Each guest surveyed is asked to rate numerous hotel services on a scale of one to ten. A master report is compiled quarterly for each hotel. It details guest perceptions of everything from the speed of check-in and helpfulness of the concierge staff to the quality of food and beverage service and consistency of front desk services.

"We use the quarterly reports as the basis for rating our own efficiency," Quinn says. "The reports can point up where one or two areas that need improvement are bringing the whole hotel down. We're asking our guests to tell us what they like and especially what they don't think we're doing well. We act on what they tell us. We want to heighten their expectations about us."

Why our suites beat every single room at Hyatt or Marriott. For the same price.

Embassy Suites® hotels give you so much more that it's no wonder *Fortune* Magazine has named us #1 in service over all the competition. And when you try us yourself, you'll see why. For the price of a single room at a Hyatt, Marriott or Sheraton, you always get:

A spacious two-room suite complete with luxurious living room with work area and a private bedroom.

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Ask about our special weekend rates.

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TRAVEL 1989

PLANNING THE PERFECT MEETING

Planning a successful corporate meeting has gotten quite a bit easier lately thanks to several new and innovative programs offered by several major airlines and hotel chains.

TWA, for example, has developed St. Louis into a popular destination for hassle-free, cost-effective corporate meetings with the airline's 7-month-old Meeting Planning Service. The Planning Service does all the detail work for overburdened meeting planners. One toll-free call to a TWA meeting planning specialist (1-800-TWA-MEET) puts the airline's vast resources in St. Louis at the corporate meeting planner's disposal.

"Corporate planners love our service because they can concentrate on the substance of their meetings, while TWA handles all the details," says Shannon Jeter, TWA manager of meeting services. "They do what they do best – plan useful meetings – and they have us to do what we do best – put St. Louis and its facilities at their service."

Among the services TWA's meeting planners provide are:

- Selecting meeting rooms, scheduling audio-video equipment, and arranging catering and personalized party planning.
- Arranging discount airfares, reservations, advance seating on TWA flights, arranging ground transportation, and making hotel reservations.
- Guaranteeing on-time delivery of essential packages and coordinating the schedules and arrivals of meeting participants.

Why St. Louis for meetings? Three reasons, says Jeter. St. Louis is centrally located and easy to reach because TWA's hub at Lambert Airport offers daily flights to and from more [illegible] 100 U.S., European and Middle [illegible] cities. St. Louis is also "a terrific value" compared with other cities favored by corporate meeting plan[illegible]ally, St. Louis is exciting. [illegible] surprised everyone who's come to St. Louis," Jeter says with obvious pride. "They're stunned by what St. Louis has to offer. It's got tremendous restaurants, great nightlife and excellent meeting facilities."

At Sheraton Corp., the Master Plan for Meeting Planners is a comprehensive, 13-point program aimed at making participating Sheraton hotels totally responsive to the unique needs of meeting and convention planners. "We're committed to forging a special partnership between hotels and meeting planners," says Frank Rudman, director of sales for Sheraton's North American division.

Leading meeting planners advise Sheraton's Master Plan for Meetings

One of the key elements of Master Plan is a 25-member advisory board that actively reviews Sheraton's sales programs and meeting facilities to help ensure they meet the needs of travel planners. The board is composed of meeting planners from some of the nation's largest corporations and associations. Master Plan also publishes a regular newsletter to alert planners about special rates and seasonal offers, operates an 800-number information line exclusively for meeting planners, holds one-day training seminars for planners, and conducts market research.

Master Plan even produces the "The Sheraton Meeting and Conference Workbook." The invaluable 72-page booklet helps meeting planners with topics as diverse as budgeting, site inspection, contract negotiation, food and beverage coordination, and meeting management. For more information on Sheraton's Master Plan, call 1-800-343-6230.

Embassy Suites has created its specialized National Group and Meeting Services Department because it feels meeting planners need a centralized place to contact for meetings. "Many times planners are referred to the individual properties rather than having a central source available," explains Lee Hambrick, Embassy Suites manager of national sales. "We formalized our services so that [planners] could easily reach the most knowledgeable source and have all their needs met with a single phone call."

When meeting planners call 1-800-EMBASSY, they are promptly referred to a specialist in the Embassy Suites groups and meeting department. The specialist determines the meeting planners' requirements and then contacts Embassy Suites in the desired locations. If an Embassy Suites cannot accommodate the meeting and the planner cannot change the date or location, the Embassy Suites specialist then makes arrangements at another hotel.

"Our priority is to meet the customers' needs," says Hambrick. "If we don't have space available, we don't want to abandon them. By helping meet their needs, we are confident the customer will come back to us. We know we were the first choice." ■

You want to make the meeting an event. You want it to bring people together from all over the country. You want it to have an atmosphere just right for both work and play.

And you don't want your comptroller giving you trouble about the cost.

What you want is St. Louis.

What you need is us. We're TWA's Meeting Services. And we know St. Louis better than anyone.

A location central to everyone.

Ideally located, right in the middle of the country, St. Louis is convenient—and relatively inexpensive—to everyone in the company, no matter where your offices are.

St. Louis boasts a number of outstanding meeting facilities and choice hotel accommodations for even the largest conventions. TWA's Meeting Services can make the ideal arrangement for any number of people, at prices even a comptroller could love.

There are plenty of extra-curricular attractions, too: the Gateway Arch, Anheuser-Busch Brewery, Laclede's Landing, St. Louis Zoo, Missouri Botanical Garden, St. Louis Art Museum, and, of course, the Cardinals.

We'll make all the arrangements.

Let TWA take care of the details. We'll give your people a convenient way to make their own travel arrangements by contacting us. And since St. Louis is TWA's major hub, we have flights in and out every day from more than 80 cities in the U.S. and more than 20 cities in Europe and the Middle East.

Not only that, we can offer you substantial savings on airfare, whether your people fly in coach, business class, or first class. We'll automatically enroll them in our Frequent Flight Bonus Program. And we'll award them 2,000 bonus miles as well.

So if you're looking for the perfect environment for a meeting that's productive, cost-effective, and, yes, a lot of fun—even for your comptroller—you don't have to look any further than TWA's St. Louis.

For more information, call 1 800 TWA-MEET.

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total satisfaction
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*Offers available at participating HHonors Hiltons. Full terms and conditions of the HHonors program and this promotion will be provided when you enroll. HHonors members who qualify for the QuickStart Cert

The answers are "yes," for American Express® Cardmembers who participate in HHonors, Hilton's guest reward program.

Earn double HHonors points for the rest of 1989

When you stay at a participating Hilton any time between now and the end of 1989 and use the American Express Card, you'll get the following exclusive package of rewards and travel benefits.* It is unsurpassed, unmatched and unprecedented in the hotel industry, and it all starts with double points in the HHonors reward program.

The HHonors Promise— total satisfaction

Hilton assures Cardmembers total satisfaction with their stay and membership in the HHonors program. Here's how:

Guaranteed Hospitality—When you use the American Express Card at a Hilton and for any reason are not satisfied with your stay, you'll receive a confirmed Towers or best available room upgrade for a future stay. Guaranteed.

Guaranteed Earnings—If you're an HHonors member and also a member of a major competitive program that gets you a standard HHonors reward faster, Hilton will match it. Guaranteed.

Guaranteed Rewards—If reward levels rise, that won't affect you. Hilton assures Cardmembers the right to redeem and use rewards at the current point level through 1990. Guaranteed.

Act now and get a free weekend night

As an HHonors member, each time you use the American Express Card to stay at Hilton between now and April 30, 1989, you will receive a QuickStart Certificate for a future stay. It entitles you to a free Friday, Saturday or Sunday night when you stay the following night at the local corporate rate.

New HHonors members who enroll before April 30 will also receive a special 3000-point American Express Cardmember Enrollment bonus.

If you're not already an American Express Cardmember and HHonors member, you can apply the next time you stay at a Hilton, or by calling 1-800-358-8000. You too can then enjoy these unprecedented benefits and rewards. Only at Hilton. Only with The Card.

AN EXPRESS CARD.

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TRAVEL 1989

FIRST-CLASS DESTINATIONS FOR 1989

A poll of the editors of the nation's four leading travel magazines recently conducted by *Advertising Age* revealed a curious phenomenon. Asked to predict the five most popular domestic and five trendiest international travel destinations for 1989, none of the editors' lists tallied. In fact, not one city here or overseas was pinpointed as a "hot spot" by more than two editors.

Keeping that cacophony of conflicting prognostications in mind, here's an overview of what's happening in some of the perennially popular business and leisure travel destinations. You'll apparently have the pleasure of deciding for yourself what's hot and what's not this year. It's clear the travel pundits haven't a clue about where you're headed.

HAWAII: DREAM DESTINATION

What's the world's most dreamed about travel destination? The Hawaiian Islands. Survey after survey reveals that more people hope to make it to America's paradise than to any other spot on the planet. Six million visitors a year eventually arrive to revel in Hawaii's varied charms. Hawaii's appeal is legendary: The sun always shines on endless miles of perfect beaches; there are superlative venues for golf, tennis and surfing; there's the exhilarating diversity of Waikiki and Honolulu on Oahu; the casual style of Maui; the rustic charm of Kauai, and the spectacular resorts amidst the haunting volcanic beauty of "the big island."

Flying to Hawaii is easier than ever, thanks to the United Airlines mini-hub at Honolulu International Airport. Visitors from anywhere on the mainland can fly United to Honolulu and then travel to any of the Hawaiian "neighbor islands." United carries half the traffic between the Islands and the mainland and offers more nonstop and direct flights to Hawaii than any other airline.

First stop for most Hawaii visitors is Waikiki, Honolulu's glitzy, high-rise beach resort that has undergone a remarkable $1 billion restoration during the last few years. The star of the revival is the oceanfront Moana Surfrider. Sheraton has invested 18 months and $50 million restoring Waikiki's first hotel to its turn-of-the-century grandeur. The result is a stunning Beaux Arts replica of the Moana as it appeared on opening day in 1901.

But the Moana isn't Sheraton's only Waikiki classic. It also manages the Royal Hawaiian Hotel, the stately "Pink Palace of the Pacific." The Royal Hawaiian endures because it mixes spectacular physical attributes (a pink turreted main building protected by formal gardens and palm trees), a perfect location (the center of Waikiki's crescent of beach) and marvelous guest facilities. A recent *Travel & Leisure* article proclaimed the Royal Hawaiian's beachfront Surf Room restaurant "best people-watching" spot in Waikiki, called its oceanside Mai Tai Bar the best watering hole in town, and found "Honolulu's reigning stars" at its Monarch Room cabaret.

Just a few steps down the beach is the Sheraton Waikiki, the quintessence of modern Waikiki. Its three curved towers rise 30 stories above the beach, so all guest rooms offer vivid views of the Pacific, Honolulu's misty, green mountains or its stunning cityscape. The Sheraton Waikiki complex also houses four restaurants and six cocktail lounges, including the Hanohano Room, an elegant dining room at the top of the hotel.

Maui is Hawaii's second most popular island, and it's famous for its natural attractions – the extinct volcano Haleakala, for example, is a center for hiking, biking and horseback riding – and for Kaanapali Beach and Wailea Beach, two world-class resort developments.

Opened just four months ago, the $90 million Embassy Suites resort at Kaanapali Beach represents a new concept in Hawaii hostelry. It is Maui's first full-service all-suite resort – there are 413 one- or two-bedroom suites in

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You'll see your name and car location displayed on our computer-controlled sign.

Your car will be warmed up and climate-controlled.

Just hop in and take off.

There's no paperwork. No lines. Nothing to slow you down.

To become a #1 Club Gold member, you have to sign an Enrollment Agreement and pay a $50 annual membership fee. For information, call 1-800-654-3131.

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In one respect, it is simply a room service delivery at an early morning hour. But at this crucial moment, one determines whether a hotel's performance equals its promise.

At Westin Hotels & Resorts, we consider this the moment of truth.

What sets Westin apart are the dedicated people who aim not only to fulfill your needs, but to anticipate them. People who respond promptly to your every request, at any hour.

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Even if it's breakfast at 3:30 in the morning.

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three towers – and the final word in high-tech luxury. Besides three restaurants and three lounges, 15,000 square feet of conference facilities, a one-acre swimming pool and a health club, each

The $90 million Embassy Suites Resort at Kaanapali Beach is Hawaii's first full-service all-suite hotel

of the suites offer state-of-the-art entertainment centers. They include stereos, 35-inch color TVs and VCRs, and all available premium cable channels.

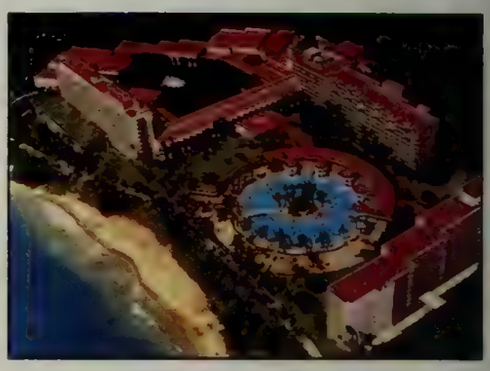
"This hotel is geared for both upscale business travelers and leisure guests, because it offers the luxury and convenience one would find at home," says Charles M. Sweeney, one of the developers. "But it's also ideal for value-conscious guests who want the best of a full-service hotel and the comfort of a condominium."

The Stouffer Wailea Beach Resort on Maui is nestled on 15 acres of tropical gardens

The Stouffer Wailea Beach Resort is Maui's grande dame. The 347-room Xanadu is built on 15 acres of tropical [illegible] is one of the world's most honored resorts. It has earned a five-diamond designation from the American Automobile Association for seven consecutive years, recently was named a "five-star tennis resort" by *World Tennis* magazine, and is a five-star *Fisher's World* travel guide honoree. Moreover, Raffles, the resort's culinary jewel, has received eight *Travel/Holiday* awards for excellence.

On Kauai, even the Honolulu papers used to arrive a day late. But the "Garden Isle" was so breathtakingly beautiful that no one cared. Now the island where *South Pacific* was filmed isn't Hawaii's sleepiest outpost anymore. The Westin Kauai at Kauai Lagoons has arrived.

Everything about the Westin is of epic proportions: The hotel cost $210 million and the 800-acre Lagoons project $300 million more. There are two golf courses designed by Jack Nicklaus, a 2-acre reflecting pond, and the



The epic proportions of the Westin Kauai at Kauai Lagoons is unmatched anywhere in Hawaii

world's largest collection (100) of draft horses pulling 30 carriages across eight miles of paths. A 26,000-square-

PHONE HOME WITH AT&T

Experienced travelers know that phoning home from abroad can be a daunting exercise.

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Hong Kong + 008-1111
Italy (Rome/Milan only) + 172-1011
Japan (not all locations) 0039-111
Netherlands + 06*-022-9111
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* Await second dial tone.
\+ Public phones require coins or phone card for dial tone.

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TRAVEL 1989

foot swimming pool complex offers five Jacuzzis and four waterfalls; a dozen Cadillac stretch limos provide guests free transportation from Kauai's airport, and the Lagoons front a mile of ocean coastline. There are also 16 restaurants, 60 retail shops and six man-made islands housing a wildlife preserve.

But Kauai isn't a one-resort island. The Stouffer Waiohai Beach Resort on the sunny south shore has pampered discriminating travelers since 1981. This elegant, low-rise, low-key resort – nothing's higher than a coconut tree here – offers just 430 rooms nestled discreetly on 11.5 acres of lushly landscaped beachfront property. And the Tamarind, the Waiohai's award-winning restaurant, specializes in dishes prepared with local fish, fowl, vegetables, spices and herbs. Its 200-bottle wine list recently received the *Wine Spectator* magazine Award of Excellence.

And where do America's chief executive officers go when they're in Hawaii? According to a survey of 15,000 chief executives by *Harper's Hideaway Report* newsletter, the bigwigs head for the Mauna Kea Beach Hotel on "the big island." It's the fourth consecutive year the Westin-managed resort has been the CEOs' favorite in Hawaii. It isn't hard to understand their fervor. Built on a pristine stretch of white sand beach by the Rockefeller family 25 years ago, Mauna Kea remains the epitome of sophisticated, understated elegance and personalized service. The resort's 18-hole golf course (designed by Robert Trent Jones Sr.) is rated Hawaii's finest and one of the nation's 100 best by *Golf Digest*. The 13-acre tennis park rates five stars from *World Tennis*. And Mauna Kea's 1,600-piece collection is one of the world's greatest assemblages of Asian and Pacific art.

WASHINGTON: POLITICS AND FLOWERS

It's hard to tell what Washingtonians await more keenly these days – the initial efforts of the two-month-old Bush Administration or the first sign of the cherry blossoms that make the capital a pink paradise. Either way, there's an unmistakable sense of rebirth in Washington, and that makes it a heady place for business and leisure travelers alike.

"This is surely Washington's best time," says Morris Johnson, a British novelist who maintains a pied-á-terre in the chic Georgetown neighborhood. "There's nothing like Washington at 'cherry blossom time.' And the years when blossoms coincide with the first days of a new presidency are especially magical to a foreigner. It is wonderful to see a town normally so cynical simultaneously come ablaze with color and alive with new ideas. It's rather one of America's best stunts, I think."

Visitors to the District this spring will also find another special event: the restoration of the Sheraton Carlton Hotel just two blocks from the White House. Closed nine months for a $16 million renovation, the Sheraton Carlton has

Pitch, putt, lob, and love. Sip, sup, splash, and swirl.

Breakaways. Make the call. Mark your calendars. Manage a little time for yourselves. Three or four days. And nights. Golf, tennis, the water.

STOUFFER

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The storied Sheraton Carlton in Washington has reopened after a $16 million restoration.

reopened with a vitality befitting its 63-year-old reputation as home away from home for the rich, famous, infamous and influential. The hotel's guest rooms, restaurant, lobby, ballrooms and meeting space have all been completely refurbished.

"We have gone to great lengths to distinguish the Sheraton Carlton from other luxury hotels," says general manager Elmer F.W. Coppoolse. It has "the finest in luxury, elegance and comfort, but our trademark is service. Our mission is to become the hotel which sets the standard that other hotels will measure against."

(A note to the politically savvy: The Sheraton Carlton houses the shop of Milton Pitts, President Bush's barber for the last 18 years.)

The modern Westin Hotel Washington in the renascent West End offers visitors a glimpse of a new and different kind of capital elegance. The hotel is designed around an interior garden court, which itself is centered around a three-tiered Italian fountain. Its fitness center may be the most complete hotel health and exercise facility in the city. The 16,000-square-foot club includes an indoor pool, two squash courts, a weight room, an aerobics area, sauna and steam bath, Jacuzzi and two massage rooms. There's also a juice bar and a full-time staff of exercise physiologists and nutritionists.

Located in Washington's renascent West End, the Westin Hotel Washington is designed around an interior Garden Court.

ood wine, delicious food, each other. At Stouffer Resorts, we
ow when to pamper you. And when to leave you alone.

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SAN FRANCISCO: PARTISAN FAVORITE

Sophisticated travelers aren't nonpartisan wanderers. They fiercely attach themselves to one town and dismiss every place else because it lacks the essential qualities of their one beloved city. But is there a single opinionated traveler out there who doesn't love San Francisco? Every great American city has a loyal legion of partisans, but everyone embraces the city by the bay.

"A regal city, sitting amid those preposterous hills, San Francisco is an American favorite," writer Kathleen Madden suggested in *Vogue* magazine. "With its prestigious opera and ballet companies, its homegrown California cooking, and its plethora of fabulous urban arcades, San Francisco is a place to savor, explore, return to."

Among other things, San Francisco is a superlative hotel town. Picking out the best from the city's bounty is a monumental task because there are so many truly outstanding places that mustn't be missed.

Guest rooms at Campton Place in San Francisco are furnished like an elegant home

The small (126 rooms) and elegant Campton Place Hotel, half a block off Union Square, has a strong following among both independent business travelers and affluent leisure travelers. Part of Campton Place's appeal is the relaxing residential character of its guest rooms: Furnishings include oversize beds with comforters, Louis XVI writing desks and limited edition art by contemporary artists. Another of Campton Place's strong suits is personalized service. Valets pack and unpack guest luggage; four complimentary newspapers are offered with breakfast, and there's same-day, on-premises laundry and dry cleaning. And, of course, there is the exquisite Campton Place Restaurant, a mecca of California cuisine.

New to the Bay Area is the Hotel Nikko San Francisco, a tasteful and inventive blend of technology, tradition, Eastern and Western cultures. The 525-room hotel is designed with the soft lighting, subtle, neutral colors and uncluttered wall space that is a hallmark of harmonic Japanese design. The Nikko's fitness center offers a glass-enclosed swimming pool, tanning console, Japanese garden, soaking tubs, Oriental and Occidental saunas and a full array of exercise equipment. And *Esquire* magazine has already proclaimed the Nikko's main dining room, Benkay, one of America's "best new restaurants." Located on the 25th floor, Benkay offers stunning views of the city and serves authentic Japanese cuisine at a sleek sushi bar, in traditional tatami rooms or in a Western-style dining room.

"Residents and travelers to the city are more keenly aware of and more appreciative of the design and detail of

COVIA: THE TRAVELMASTER

How much does American business spend on travel and entertainment in one fiscal year? About $100 billion, more than any other controllable corporate expense except salaries and data processing. That's why it's no surprise corporations are working to manage T&E costs.

Businesses are "centralizing travel through one agency, negotiating special rates for airfare, hotel and car rentals, [issuing] corporate credit cards and establishing a travel policy," explains Lynne Rosenbaum, a vice president at Covia, one of the world's leading travel information systems companies. "But the accounting phase of the cycle–expense reporting, reconciliation with vendor bills and management analysis–has been overlooked at both the T&E and general ledger levels . . . Management needs to look at money spent rather than mere travel plans."

Covia's Travelmaster integrated internal accounting system does just that for more than 100 U.S. firms, including Amoco, Kraft, Abbott Labs and Richardson Vicks. Travelmaster helps these companies save money by using T&E expense data from the firm's reservations activity, automating expense-account reporting to simplify it for the traveler, digesting and analyzing the data, and then interfacing it with the appropriate corporate journals and general ledger.

Covia's Travelmaster is available in mainframe, mini-computer or PC users

"As a centralized accounting and reporting system, Travelmaster enables companies to examine T&E expenses and eliminate waste and errors in all phases of the business travel cycle, from travel planning through management analysis," says Nathan Harper, Covia's manager of corporate products.

Tracking T&E costs from the accounting side yields substantial savings. A major electronics firm uncovered $30,000 in erroneous credit-card billings thanks to Travelmaster's ability to reconcile employee expense reports with actual vendor invoices, Rosenbaum recalls. "Another company retrieved $175,000 in delinquent employee advances," Harper adds.

Travelmaster software is also flexible: it runs on mainframes, mini-computers and even personal computers. "The ability to fit into any computer environment is an exclusive feature," says Harper. ■

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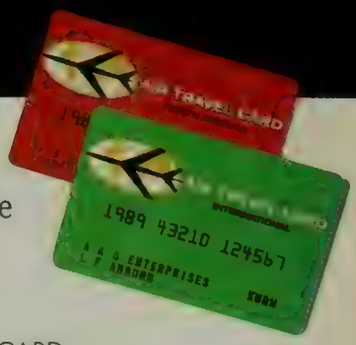

AIR TRAVEL CARD

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The Hotel Nikko San Francisco's glass-enclosed swimming pool is part of an extensive fitness center

their surroundings," says assistant general manager Tsutoma Kodaira. "This heightened sensitivity will make the Nikko a hotel of choice for the discriminating."

San Francisco is also home to the Stanford Court, repeatedly named the favorite hotel of America's chief executive officers. CEOs surveyed by *Harper's Hideaway Report*, for example, have named the Stanford Court the best city hotel in the nation for five years running. The hotel also won the top rating in an executive survey conducted by *The Wall Street Journal*. The 402-room gem atop Nob Hill was purchased in January by the Stouffer Hotel Company. Buying the Stanford Court "epitomizes our commitment to the highest standards of quality," says Stouffer president William N. Hulett.

Thanks to a major expansion announced by United Airlines, San Francisco also is solidifying its position as the nation's most important gateway to the Pacific Rim nations.

United already offers daily nonstop service between San Francisco International Airport and Osaka and between San Francisco and Hong Kong. It also operates two daily nonstop flights to Tokyo. But United's current total of 28 weekly international departures from San Francisco will soon increase 86%. [illegible] vice will include: a third daily [illegible] flight to Tokyo (beginning March 26); a daily nonstop flight to Seoul with continuing service to Manila (beginning May 1); three nonstop flights a week to Taipei (beginning July 15), and four flights a week to Sydney via Honolulu (beginning June 1).

The steady growth of the Bay Area as a formidable Pacific hub created the need for an outstanding hotel at San Francisco International Airport. The 18-month-old Westin Hotel San Francisco Airport has filled the bill admirably. The $43 million Westin was designed specifically with business travelers in mind. Each of the 393 guest rooms was specially soundproofed and each has a computer terminal port. There are around-the-clock shuttles to the airport terminals, 45 meeting rooms, three restaurants and cocktail lounges, and a complete fitness center with an indoor lap pool and outdoor jogging path. There's even a full-service United Airlines desk in the hotel that offers seat assignment, boarding passes and baggage check-in for domestic flights.

CHICAGO: BUSINESS AS USUAL

"Chicagoland" is the nation's undisputed king of conventions and trade shows, thanks to the sprawling McCormick Place exhibition center. It also boasts the nation's busiest airport (frenetic O'Hare International), is home to America's largest airline (United), and is a major hub for the second-largest carrier (American).

Now you understand why there are always new hotels being built in Chicago. No matter how many fine hotels already exist, the constant influx of business travelers ensures there's always a need for more rooms.

Stouffer Hotels and Resorts, for ex-

AIR TRAVEL CARD, THE FIRST AND ONLY

Most credit and charge cards vying for a slice of the corporate travel and entertainment pie boast about how many retailers and restaurants accept their cards. But the Air Travel Card remains true to its original mission: It's the world's first and only airfare-only charge plan.

"Our product is in a niche by itself. We're a unique corporate tool," explains Charles B. Fischer, executive secretary of the Air Travel Card. "It's the most convenient way for companies to look at airline charges without worrying about reconciliation. Companies get just one invoice for air travel. It also keeps air travel charges separate from entertainment expenses."

The perfect simplicity of the card–there isn't even an annual fee – is increasingly popular with companies working to control T&E spending. More than 100,000 businesses subscribe to the system.

The Air Travel Card is also upgrading insurance benefits extended to travelers. In January, it began providing $200,000 in automatic air travel insurance protection for every person who travels on a ticket charged to an Air Travel Card. The $200,000 coverage is in addition to GlobalAid, a medical, dental and legal assistance program offered free to cardholders.

More than 100,000 corporations use the Air Travel Card

Corporations desiring broader protection can purchase enhanced coverage for a $29.95 annual fee per person. It offers $700,000 in air travel insurance, GlobalAid, $2,000 in lost/stolen baggage insurance, $15,000 car rental coverage, and $100,000 personal accident insurance (PAI) for the rental car driver and five passengers. Executive coverage ($54.75 annual fee per person) offers $600,000 in air travel insurance plus a beneficiary annuity of $400,000. It also includes GlobalAid, $5,000 lost/stolen baggage insurance, $25,000 rental car coverage and PAI. ■

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TRAVEL 1989

ample, manages two hotels in the Chicago suburbs, but has announced plans for a $32 million, 27-story luxury property in the heart of downtown. The 600-room hotel is scheduled for completion in early 1991.

Embassy Suites opens its fourth property in suburban Chicago in May. The newest Embassy Suites, in the fast growing Lombard-Oak Brook area, will feature 262 suites, an indoor pool and a full array of hotel services as well as Embassy's free cooked-to-order breakfasts and free cocktails.

And Four Seasons Hotels, which already manages the Ritz-Carlton at Water Tower Place, opens the Four Seasons Hotel Chicago across the street this spring. The new Four Seasons, with 346 guest rooms and 16 residential apartments, will share a mixed-use building with Chicago's first Bloomingdale's department store.

The Hotel Nikko Chicago at Riverfront Park opened to rave reviews just 18 months ago. Situated on the banks of the Chicago River and flanked by Japanese gardens and landscaped walkways, the 425-room Nikko is a serene addition to the Chicago scene. Guest rooms feature bay windows and marble baths. Elevators are paneled in Japanese ash. The lobby is finished in polished granite, ash and African mahogany. There's a fully equipped business center, superlative Japanese and American dining rooms, and state-of-the-art conference facilities. Not surprisingly, the hotel was promptly awarded four stars from the *Mobil Travel Guide*. "Hotel Nikko was chosen for its luxurious furnishings, meticulous surroundings and outstanding service," says Richard J. Marcoux, manager of the *Guide*.

HONORS FOR TRAVELERS

Hilton and American Express have just launched an unprecedented guest-rewards plan that guarantees travelers first-class treatment.

The offer revolves around membership in Hilton's extensive "HHonors" reward program. HHonors members who stay at participating Hilton hotels between now and the end of the year and use the American Express® Card receive an exclusive package of benefits and rewards. Among the perks:

- Hilton HHonors members who use the American Express Card receive double points in the HHonors program through the end of 1989.
- HHonors members who use the American Express Card at a Hilton and are not satisfied receive a confirmed "Towers" room or an upgrade to the best available room for a future stay.
- HHonors members who use the American Express Card are guaranteed the right to redeem HHonors rewards at the current levels through 1990 even if the reward levels rise.
- HHonors members receive a "Quickstart" certificate for a future stay each time they stay at a Hilton and use the American Express Card before April 30, 1989. The certificate entitles HHonors members to a free Friday, Saturday or Sunday night when they stay the following night at the local corporate rate.

Hilton and American Express even have an offer for Cardmembers who don't belong to the HHonors program. American Express members who enroll in HHonors before April 30 receive a special 3000-point bonus.

ST. THOMAS: THE LAST WORD

Travelers searching for an utterly first-class destination might consider the Stouffer Grand Beach Resort on St. Thomas in the U.S. Virgin Islands. The property's "ultimate lifestyle" package includes helicopter pick-up at the airport, eight days in a two-bedroom suite with a Jacuzzi and stocked bar, breakfast each morning, five dinners at restaurants on St. Thomas and a champagne dinner for two in the suite, a day's sail on a private yacht and private scuba lesson, a private motorboat trip to the limousine tour of Virgin Gorda, a day in the sun on a secluded island complete with champagne lunch, and an evening in Puerto Rico for dinner and gambling. Price per couple? $9,500 or $10,326, depending on the season.

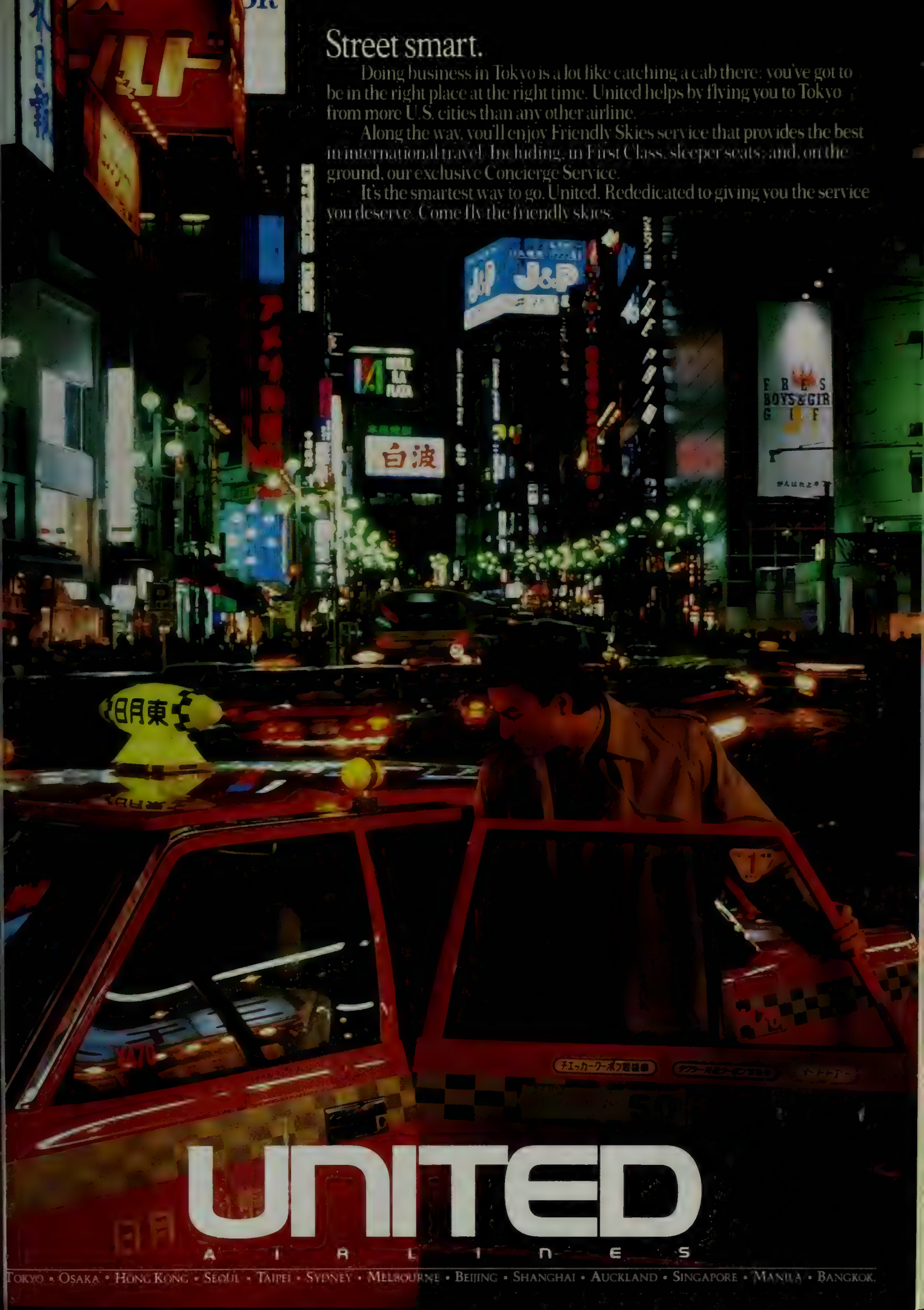
WHAT THE PROS CHOSE

By the way, in case you were wondering what places those fractious travel editors tabbed as 1989's "top five hot spots" in *Advertising Age*, here's where their picks jibed.

Within the U.S., Pamela Fiori of *Travel & Leisure* and Rod Davis of *American Way* agreed on San Diego. And Davis and Harold Evans of *Conde Nast Traveler* agreed on New Orleans. Overseas, Fiori and Scott Shane of *Travel/Holiday* agreed on Turkey, and Fiori and Davis agreed on Paris.

What's all that prove? Only that you're free to go anywhere you like this year without worrying too much about what's trendy and what's not. ■

Angelo Anthony is a free-lance writer based in New York. His work has appeared in *Frequent Flyer* and other travel magazines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What's an old-line controls firm doing in the car battery, car seat and plastics businesses? Investing for its future.

Damn the analysts, full speed ahead

By Alyssa A. Lappen

UP IN MILWAUKEE there's a $3.1-billion-a-year manufacturing company, Johnson Controls, Inc., that for the last ten years has been pursuing one of the most unusual diversification drives on the business scene. The question is whether Wall Street will give the company the time that it needs for the strategy to pay off.

Johnson began life manufacturing heating controls for buildings. But, as some controls markets matured, the company began looking for new opportunities. Thus, the eye of then-chief executive Fred Brengel settled on three of the dullest-sounding markets in all of manufacturing: car batteries, auto seats and plastic soft drink bottles.

Why those? Because it is usually the glamourless backwaters of business that get overlooked when companies go on the prowl for exciting new investment schemes with which to impress Wall Street. And it's these capital-intensive niches that can present real opportunities. In plastic bottles, batteries and auto seats, Brengel found three that he thought would fit the bill.

In 1978 Brengel paid $250 million to acquire Globe-Union Inc., a Milwaukee-based supplier of automobile batteries. Seven years later Brengel paid another $486 million to acquire Hoover Universal, Inc. of Ann Arbor, Mich., a maker of auto seats, a product that cost-conscious automakers had begun farming out to suppliers. Hoover had a sideline business in plastic soda bottles, where demand was growing at about a 10% annual rate, and it came along as part of the deal. (Johnson sold Hoover's seven other less promising businesses, including television antennas, furniture parts and beer barrels.)

Early last year Brengel stepped

Scott Auerbach

Johnson Controls' chief executive, Jim Keyes
The glamourless backwaters of business that others overlooked.

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The Compaq 386 lin
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For more and more personal computer users, higher PC performance is no longer a luxury. New operating systems and more-demanding applications are making it a necessity.

That's one reason Compaq has created the broadest line of Intel 386™-based personal computers available. Each is designed to deliver the highest- [illegible] ing solution for every different user's needs, with unmatched industry-standard compatibility and connectivity.

Take the COMPAQ DESKPRO 386/25, for example. For users who require the ultimate in performance, it's the most powerful personal computer available. And with standard features like eight expansion slots, your choice of four different storage devices and a wide selection of graphics controllers, it's one of the most flexible personal computers, too.

The COMPAQ DESKPRO 386/20e brings the power of a 20-MHz 386 chip to personal computer users who are outgrowing their 286-based PC's.

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COMPAQ DESKPRO 386/20e

COMPAQ DESKPRO 386/25

personal computers. or the power-hungry.

her PC's this powerful won't.

The COMPAQ DESKPRO 36s is also something of a eakthrough. It's the first PC signed to offer affordable 386 erformance to people who are nsidering 286 PC's.

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simply works better.

aside, passing the reins to James Keyes, 48, only the sixth chief executive in Johnson's 104-year history. Keyes inherited a company that had already spent a net of $650 million to get into these new businesses, plus at least $550 million more to upgrade and expand them. It's a legacy he intends to honor, which is why he plans to spend another $210 million this year on new plants and equipment, up 40% from Johnson's average spending over the last three years.

Spending of such scope could cause a company's balance sheet debt to swell. But Johnson has been spending largely out of cash flow, not borrowings, and has therefore managed to keep debt to a modest 27% of capital.

The strategy has brought the company big gains in market share wherever it competes. Under brand names like Sears' DieHard and Interstate Battery System's Megatron, Johnson today has about a third of the $2 billion aftermarket for car batteries, up from 27% in 1978. It also has 14% of the $3.5 billion automobile seat business, up from 6% in 1985. It has a third of the $1.2 billion commercial market for plastic soft drink bottles, about even with its biggest rival, Constar International. Such packaging giants as Owens-Illinois and Continental Can have either dropped out or cut way back on their businesses. Meanwhile, in Johnson's mainstay business of building control systems, it has one-third of a $3 billion market, and is expanding into service and retrofitting, too.

All this growth has, however, come at the price of eroding margins; Johnson's earnings growth has lagged behind sales growth for the last four years. In 1988 the net aftertax margin on sales was 3.3%, only half what it was a decade earlier, whereas return on equity has averaged only 12.7% for the last five years.

Does all this mean that Johnson is following the route of so many other growth-crazed companies with revenues that keep swelling and swelling until the profits disappear altogether? Nope. Plants that are already running at full steam are very profitable, Keyes says. "And once you get through this gearing-up phase, in two or three years, then the investments will fall sharply and the margins will widen."

It's a story that Wall Street obviously isn't buying. Johnson's stock currently sells at a lackluster 34¾, only 11 times projected 1989 earnings of $3.15 a share. Meanwhile, the number of analysts eyeing the stock has more than doubled, to 12, in the last [illegible] years. "I'm amazed no one has made a run at Johnson," says Marty McDevitt, an analyst with Milwaukee's Cleary Gull. "It's on everybody's screen as a takeover target." Morgan Stanley's Ram Capoor, for example, pegs Johnson's breakup value at $52 to $68 per share.

Any breakup, if it came, would come over Keyes' dead body. What's his strategy? "It depends on whether you take a short-term view and want to improve returns immediately, or you take a long-term view and seek to maintain market leadership. We've chosen the latter approach."

Will Wall Street give Keyes the time he needs? Rather than wait for a raider to pounce, Keyes has begun an aggressive drive to cut costs and increase efficiency so that pretax returns on tangible assets in each division will be at least 25%. He has also given managers powerful incentives in the form of stock options and the promise of big cash bonuses if Johnson meets its goal of 17% return on equity. The only thing he won't do is cut capital spending. Says he, "Our major thrust gets back to a basic issue. We have got to build plants and increase our competitiveness and we're in businesses where that takes a lot of capital." That's an attitude American business could use a lot more of. ■

When Jack Murphy took over, Dresser Industries' fortunes were declining rapidly. In five years he turned the losses into profits, with more to come.

Murphy's Law

By Toni Mack

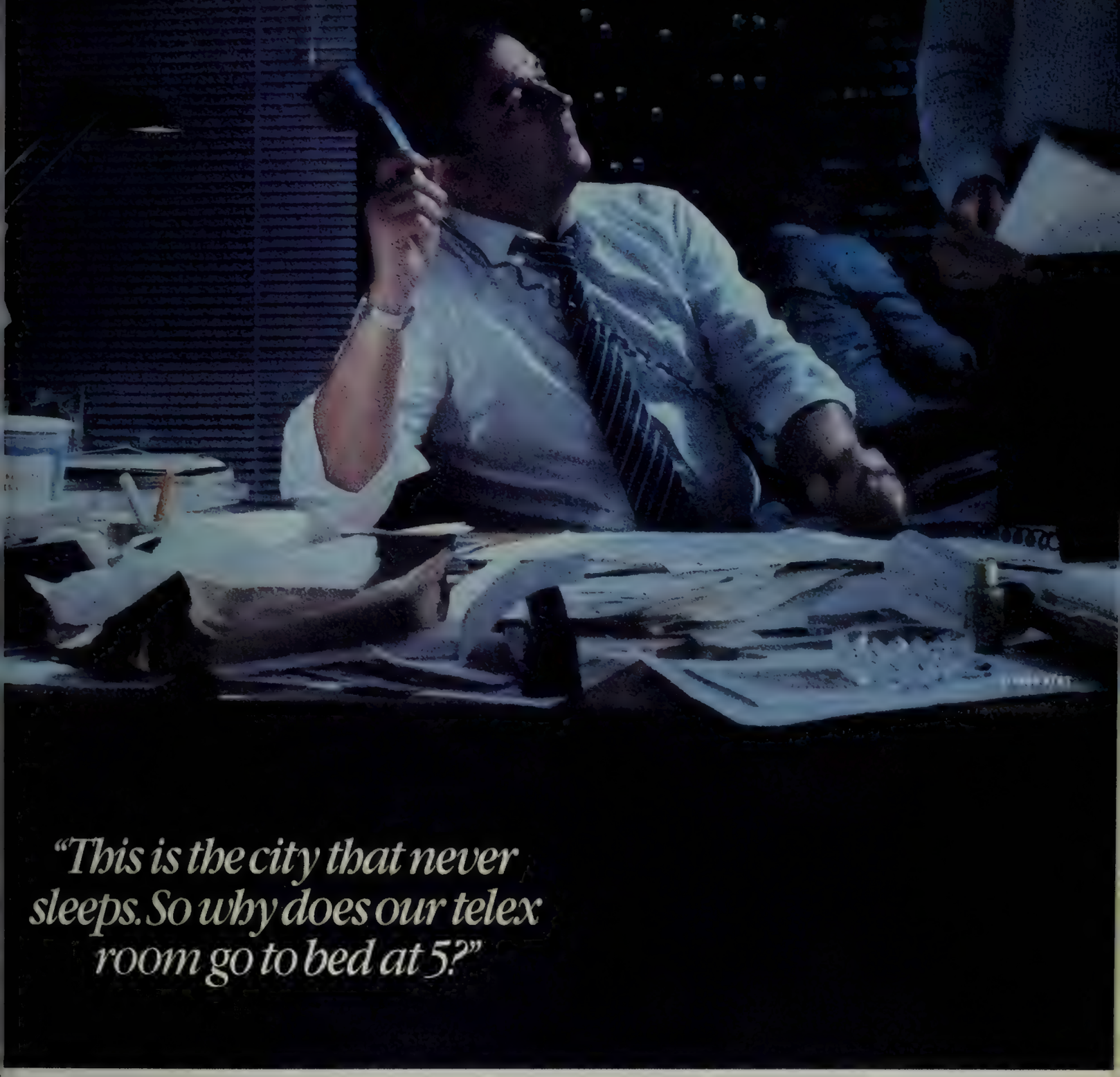
THE WORD MOST OFTEN USED to describe John J. (Jack) Murphy is tough. He had to be. The company whose reins he took as chief executive in 1983, Dallas-based energy conglomerate Dresser Industries, had hit its peak profitability in 1977. The oil services boom that kept profits aloft through the early 1980s was fast fading. "Virtually all the markets we serve were collapsing," Murphy recalls. Things reached rock bottom in 1985, when Dresser took writeoffs of $270 million. It lost a net $196 million, or $2.58 a share.

All that has changed now. Thanks to Murphy's overhaul, Dresser earned $123 million from continuing operations, or $1.78 a share, on $3.9 billion in revenues in the fiscal year that ended last Oct. 31. This year analyst James Crandell of Salomon Brothers predicts earnings of $155 million, or $2.30 a share. And yet the stock market seems asleep to Murphy's achievement. At a recent 34¼, Dresser common trades at 15 times earnings, as compared with a price/earnings ratio of 23 at Halliburton and 18 at Schlumberger, the other two oil service biggies.

Jack Murphy grew up with Dresser. His father, an Irish immigrant, was a molder in the foundry of Dresser's Clark compressor factory in Olean, N.Y. Murphy spent summers working there and took a job as an applications engineer at the plant when he graduated with a degree in mechanical engineering from Rochester Institute of Technology in 1952.

Under Murphy's leadership, Dresser is now focused sharply on energy, catering to all phases of the industry, from drilling a well to constructing a petrochemical plant. Gone are ventures in life insurance, mechanics' hand tools, fire hydrants and 14 other product lines that Dresser had going in 1983.

Making some of his oil service operations profitable meant not only paring capacity to fit shrunken markets but also at times combining his opera-



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John J. Murphy, chairman, president and chief executive of Dresser Industries
"We're not going to earn a good return on our stockholders' equity by sitting on cash."

tions with those of competitors. "You somehow had to get scale economics back into the business," says Murphy, 57. "That's where joint ventures come in." By combining Dresser's drilling fluids outfit with that of Halliburton, for example, Dresser cut capacity, costs and competition. Such ventures are now commonplace in the oil service industry. Dresser was early and aggressive, with five ventures to its credit, more than any other company. (Dresser's share of one venture has since been transferred to Baker Hughes Inc. to settle a patent lawsuit.)

And although oil drilling is still depressed, Dresser's oil service businesses are nonetheless profitable (operating profit was $42 million in 1988) and now so lean that most of any additional revenue, as oil prices stabilize and drilling comes back, will fall to the bottom line.

It's a principle that Murphy has applied to other Dresser operations—most recently in construction equip- [illegible] n, a diversification for which [illegible] could find no buyer. With the [illegible] tion equipment market deep- [illegible] ed, Dresser's plants were [illegible] half of capacity. So Murphy brought in Japan's Komatsu as a 50% partner (FORBES, *Nov. 14, 1988*). The venture, with around $1.4 billion in first-year sales, should return around $10 million in operating profits to Dresser this year. If that margin sounds slim, remember that the joint venture is new and the market is still in the doldrums.

While selling off businesses and combining others, Murphy has also bought a few—most notably, the M.W. Kellogg engineering and construction firm, for which he paid about $195 million in January 1988. He bought it partly to keep it out of the hands of the Japanese, who were also interested. Kellogg's bid specifications often include Dresser compressors, turbines and controls. For that reason, it has a synergy with Dresser that is uncommon among acquisitions.

And the timing of the purchase was serendipitous: Two months later, Kellogg's business took off. "Some days you get lucky," says Murphy with a chuckle. Kellogg, which has a new technology that squeezes more ethylene from a pound of feedstock, has been awarded contracts to design 5 million of the 7 million tons of new ethylene capacity announced worldwide since the beginning of 1988. The company's backlog now stands at $1.5 billion in firm contracts, with over $500 million more in letters of intent.

At $110 million in 1988 operating profits, the energy processing and conversion equipment segment—those compressors, turbines and controls—is Dresser's largest. It will get even bigger this year, as the petrochemical boom turns into orders for Dresser equipment.

The company is also now piling up cash, about $300 million at last count, with $120 million or so more to come from the Komatsu-Dresser venture by May. Does that kitty, plus the low stock price, make Dresser an acquisition candidate? Not likely. Its plethora of product lines would make an easy fit for nobody.

What to do with the cash? "We'd like to acquire more assets, but prices are crazy today," says Murphy. There is no need to reduce debt, currently 16% of capital. So Murphy is likely to increase the dividend (now 80 cents a year), buy back stock, or both. Says Murphy: "We're not going to earn a good return on our stockholders' equity by sitting on cash." ■

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MetPath's Andrew Baker with fresh specimen delivery
Flight [illegible] and the weather mattered more than technology.

Isaiah Winer

Science & Technology

Edited by Gary Slutsker

In a high-tech service business, the service may count more than the technology. Witness the experiences of MetPath, a pioneer in mail-order medical testing.

Clinical case

By Ignatius Chithelen

IN 1967 PAUL BROWN was a $6,000-a-year resident pathologist at Columbia Presbyterian Medical Center in New York City with a big idea. Brown figured that the fragmented clinical lab-[illegible] testing market (1988 estimate: $18 billion) was ripe for consolidation. If he could invest heavily in emerging technology, the resulting efficiencies would enable him to slash prices and win business.

"I was amazed at the sky-high test prices charged by hospitals and clinics," he recalls. So, on an investment of $500, Brown started Metropolitan Pathology Laboratory Inc. and ran it out of his two-bedroom apartment in upper Manhattan. He charged $3 for a Pap smear and $5 for a biopsy to detect cancer—roughly one-third the going rate at neighboring hospitals.

In the 1970s Brown's strategy worked beautifully, and MetPath became a profitable company and a highflier on Wall Street. But then things started going wrong. The company eventually lost its technological edge, and at that point its deficiencies in customer service became telling.

MetPath's initial competitive advantages were cost and speed. In 1969 Brown invested in a $55,000 device that automatically performed 12 common blood tests, such as measuring levels of cholesterol, calcium, phosphorus and glucose. Hospitals and local labs charged over $40 for the tests; MetPath's price: $5.50.

As the technology advanced, Brown kept investing. In 1972 he spent over $1 million on two AutoChemists, which moved specimens in test tubes along a conveyor belt and monitored reactions with different chemicals. Besides doubling the number of blood tests MetPath could perform automatically to 25, the AutoChemist saved significantly on costly chemical reagents needed for analysis. All told,

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the machines cut the cost of reagents for a 12-test profile to 32 cents from the earlier $1.25.

By the early 1980s MetPath was touting its 230,000-square-foot building near the Teterboro, N.J. airport as the world's largest clinical lab. Besides the testing devices, MetPath invested millions in computers. Four IBM mainframes oversaw everything from tracking bar code labels on specimen tubes to sending results to terminals in 70 MetPath branches and 550 doctors and hospital offices.

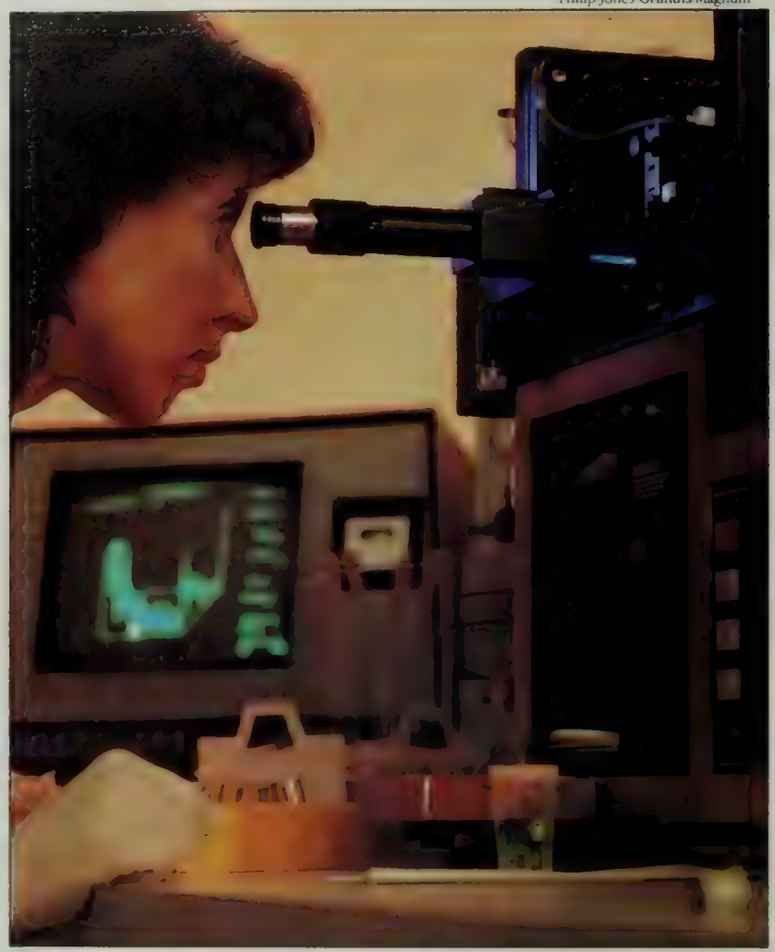
For a while everything seemed rosy. MetPath's tests were cheaper than those of hospitals and neighborhood clinics, and MetPath promised results within 24 hours—twice as fast as the competition. And doctors in most states* loved MetPath because, like other labs, it let them bill their patients and pocket any markup they wished—an average markup of 140%.

But then MetPath became infatuated with growth. To gain ever greater efficiencies of scale, Brown hit on a way to push more tests through the New Jersey superlab. MetPath would become a kind of medical Federal Express. Toward that end, Brown began acquiring mom-and-pop test labs around the country, collecting the specimens and airlifting them to Teterboro for testing. Like a growing airline, Brown soon built a second hub lab—215,000 square feet worth near Chicago's O'Hare Airport.

Operation Airlift nearly destroyed Metpath. The acquisitions pushed it deeply into debt. To provide deeper pockets, Corning Glass Works, a MetPath supplier and minority investor, bought the company in 1982 for $140 million. (Brown pocketed $15 million for his share and retired; in 1986 he started Hearx, a West Palm Beach, Fla. hearing aid firm.) But the acquisition strategy backfired in another way. When MetPath acquired a lab to turn it into a storefront specimen collection point, it fired the managers—only to discover later that they were walking away with accounts to new jobs at competing labs.

Meanwhile, the Teterboro command center couldn't cope with the worsening logistical nightmare. Explains Joseph O'Brien, the senior vice president for lab medicine: "We paid more attention to flight schedules and arrivals and the weather than technology." That created lab bottlenecks. "Doctors would call up screaming, complaining about the delay in getting results," he adds.

Philip Jones Griffiths Magnum



Testing for immune disorders using fluorescent activated cell sorter

"The patient doesn't care how sophisticated your lab is."

Distribution costs had overwhelmed MetPath's now fragile financial structure. Thus, as revenues kept growing, MetPath's operating margins dropped from 10% in 1981 to 4% by 1985. Explains Andrew Baker, installed as president by Corning in 1985: "We had cases where one of our drivers would drive 200 miles a day to pick up four specimens and put them in a box for air freighting to Teterboro. While revenues on the tests were $60, air shipment alone cost $50."

Ironically, as MetPath was trying to solve its logistics disasters, it was losing its initial technology lead to competitors. The inescapable miniaturization trend in electronics has made testing equipment affordable for the smallest test lab, and even for doctors. For as little as $12,000, for example, doctors can buy a Chemistry Analyzer from Ciba Corning Diagnostic Corp. to run over 40 tests, including cholesterol and blood sugar. Not surprisingly, MetPath is lobbying Congress to restrict doctors' ability to set up test labs. True, doctors with testing equipment are tempted to overtest. But they can deliver results faster than any mail-order outfit.

Finally, in 1985, MetPath started dismantling its costly airlift operation, closing some local networks and even turning over the O'Hare hub to Sandoz after a writeoff of $30 million. Now MetPath is more like a chain of regional testing lab centers (it has 14) than a national testing company.

Today MetPath's superlab in Teterboro specializes in complex tests in which technology efficiencies can support the centralization. Such tests—like those needed to diagnose Down's syndrome in a fetus or the condition of breast cancer tumors—need to be done in high volume because of the need for costly reagents and skilled personnel. Specimens for these tests are still air-freighted to Teterboro. As a result, business is starting to boom again. Since the problems in 1985, sales went up 75%, to $350 million, in 1988. Instead of losing money, MetPath earned net income of over $30 million, while paying down most of its $140 million debt.

But MetPath's problems aren't all behind it. For one thing, archcompetitor SmithKline Beckman leapfrogged MetPath through a series of aggressive acquisitions. SmithKline, which also functions as a federation of regional test labs, now has 14% of the clinical testing market, almost double MetPath's share.

What's the moral? MetPath became so entranced with technology it forgot that its business was selling service. Says Baker: "The patient in Los Angeles doesn't care about how sophisticated your lab is in New Jersey. All he cares about are his test results." ■

** [illegible] Island forbid doctors to bill for [illegible] outside labs*

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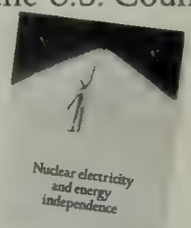

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Computers/ Communications

Which is a better investment, $89 for a personal computer tax program or $500 for an accountant to do your taxes? For most people, the latter.

Autotax

By David Churbuck

WILBURN C. ROBINSON, chairman of the American Institute of Certified Public Accountants subcommittee on computer tax applications, can afford the investment of time and money that good tax software costs. His St. Petersburg, Fla. firm, Cherry, Bekaert & Holland, uses Intax, a $3,000 personal computer tax program developed by Interactive Financial Services of Norcross, Ga. Robinson says his accountants spend about three days learning the Intax system and another two days in training every year to stay on top of revisions to the tax code and the corresponding revisions in the software.

Robinson's opinion on personal tax software purchased by individuals at $50 to $300? Not very favorable. "An individual can earn far more money in the time spent and end up with a better tax result by keeping well-organized records and by talking to a CPA at least twice a year," he says.

[illegible] someone who [illegible] a living in part off [illegible] people's tax re[illegible] of course, Robin[illegible] dismissed as someone with an ax to grind. Don't. A frustrating session with one PC tax program leaves this reporter—who is knowledgeable about PCs but ignorant about the Internal Revenue code—with the feeling that Robinson's advice is sound.

Who should use a computer to do his own return? "Perhaps someone with some basic bookkeeping knowledge, or maybe an accounting degree," says Robinson. If you are contemplating buying tax software, first answer these questions:

- Have you done your own taxes for the past two years? If the answer is no, skip lines 59-240 of this story and proceed directly to the conclusion. Don't even consider a tax system that runs on a PC.
- Do you already own a PC, preferably with a laser or ink-jet printer? If not, don't buy tax software. Making a $2,500 investment in a computer with the notion that tax preparation will be one of the quick payoffs is sure to lead to disappointment. You'll have all the headaches of learning about computers at the same time as you tangle with the infernal tax regulations. As for the printer, tax software makes sense only if it can print out finished tax forms. That can be a tricky proposition if you're feeding preprinted IRS forms into a dot-matrix printer and trying to get the numbers aligned in the right boxes. A laser or ink-jet printer, on the other hand, can—with the better software, such as Swiftax and TaxView—create an IRS-acceptable form at the same time it prints numbers in the boxes.
- Finally, when you do your taxes, do you find yourself spending most of your time figuring out the rules, or most of your time doing calculations and copying over forms? If the latter, software will speed up the process. If the former, don't expect much help from a computer.

Tim Lewis

This was going to be the year that I would prepare my tax return on a personal computer and say goodbye to my accountant. I've used a PC for more than five years, and currently own an IBM-compatible clone and a $500 ink-jet printer. So I spend $54 at a New York City software discount store for Timeworks' Swiftax, formerly called Sylvia Porter's Swiftax. The box contains two disks, a 69-page manual and a copy of the *Price Waterhouse Personal Tax Adviser.*

Installing the software takes about five minutes. Navigating around the program is easy enough. A

Caveat emptor

Do-it-yourself income tax software is just the thing for those who like to spend their leisure reading the tax code and feel at home with personal computers. Others beware. Herewith, a sample of available programs.

Software	Price basic	Price state add-on	State add-ons available	Memory needed (kilobytes)	Other software needed	Interactive tax help?	Guidebook included*
Andrew Tobias	$75	—	—	320		yes	
Ask DAN About Your Taxes	90	$12	3	512		yes	
EasyTax	89	35	4	384	a	no	
EZTax-PREP 1040	130	69	3	512	b	no	
JK Lasser's Your Income Tax	75	40	2	512		yes	*JK Lasser's Income Tax*
Swiftax	70		—	512		yes	*Price Waterhouse Tax Advisor*
Tax Preparer	295	125	1	128	c	no	*Tax Forms Guide*
TaxView	119	65	2	640		yes	*Arthur Young Federal Tax Highlights*
The Tax Advantage	60		—	512		yes	
TurboTax	75	40	41	256		yes	*Price Waterhouse Tax Advisor*

*Where none is listed, supplier recommends user get free Publication 17, Your Federal Income Tax, from IRS. a: Lotus 1-2-3. b: 1-2-3, Symphony or Multiplan. c: GW-Basic (generally included with DOS).

glance at the manual every now and then to keep me on course, and before I know it I'm filling in Form 1040.

Okay, first snag. Filing status. I'm married and have two children. My wife works, but it's freelance income. There's a distinct possibility she hasn't made high enough quarterly payments of estimated tax to cover her income tax liability and her 13% Social Security tax. A penalty for underpayment of estimated tax may apply. Therefore, I reason, shouldn't we file separately, so the penalty doesn't apply to my tax liability?

In fact, I discover later, this reasoning is incorrect: If anything, a joint return in such circumstances reduces the likelihood of an underpayment penalty. But nothing in the program could have given me such advice; it simply can't do form 2210, on which the underpayment penalty is calculated. A thorough reading of the Price Waterhouse paperback would have been enough to explain the rules for estimated taxes and the effects of filing our taxes separately. But the tax book doesn't directly address the interaction of the two sets of rules. Like a lot of tax questions, this one demands not a yes/no answer or a formula, but a general understanding of tax concepts.

I check the separate-filing box and plow onward. Wages, no sweat. Interest, a breeze. Don't own any stocks, don't own a second home, for which the deduction rules are very complicated. No major decisions to make until I try to figure out what to do with the second half of a book advance I was paid last year. Is that royalty income? Or is it a profit from a business? Schedule E or Schedule C? I turn to the manual, but an hour later, I still can't figure out what is going on. So I stick the number in any old place and hope for the best. (Correct answer: Schedule C, since writing is a business and may result in self-employment tax.)

My wife incurred expenses last year in her business, but didn't receive payment for the job until this year. Can she deduct those expenses in 1988? (Yes, usually.) I sold my home last year, may reinvest in another within the two-year deadline but haven't yet. Do I pay capital gains tax on the assumption I won't buy another house? (No, but I should report the sale on Form 2119, which Swiftax does not have.)

My wife was the beneficiary of a trust. What kind of trust? Uh-oh. What do I do now? Swiftax doesn't say. In fact, no tax package is going to strike up a conversation with me and act as smart as a $150-per-hour CPA.

The point is: If your return is complex, and if you don't make a living out of understanding the tax code and its ever-shifting intricacies, then give strong consideration to letting an accountant do the chore for you. He probably uses a software package himself: a $2,000 package designed for professional use. And if, heaven forbid, the IRS decides to invite you in for an audit, it's nice to have your accountant along. Computers are hard to blame.

However, if you do your own taxes already, and enjoy computers, then most tax programs will reduce the clerical drudgery. They do the simple math for you, keep a trail, link underlying schedules and forms to the appropriate line on Form 1040, and let you perform "what-if" calculations. Common problem for the do-it-yourself tax filer: A day after finishing all the state and federal forms you get a statement from your broker amending the 1099 dividend reporting form. By hand, that may mean revising pages and pages. On a computer equipped with the right software, correcting and reprinting the returns would be fairly painless.

Now, a word about printing out your returns. The IRS is very picky about what type of computer-generated returns it will accept. Setting up on my home computer was easy, but the first time I tried to print out a sample return on a laser printer attached to an office network, the result was less than IRS-acceptable. In fact the IRS public information office got a good laugh out of it. This was not entirely the fault of Swiftax. What I should have done was to amend the printer codes. But you can spend hours reading manuals before you get printer codes straightened out. This is a specimen of a code for a Hewlett-Packard Laserjet printer:

chr$(027) + "E" + chr$(027) + "&l1O" + chr$(027) + "&k2S"

not the sort of thing you want to learn on Apr. 14, when you still have Depreciation Form 4562 to figure out.

If you have doubts, don't buy tax software. ■

Mainframes may be headed for extinction, but that day is surely long off. In the meantime VM Software is making a nice living off those mainframes.

Utility infielder

By David Churbuck

A FAIRLY WELL ACCEPTED notion in computing is that the mainframe—the multimillion-dollar room-filler used by a bank or insurance company—is going the way of the dinosaur. Desktop toys costing $15,000 can now manipulate numbers almost as fast. But if the mainframe business is dying, you wouldn't know it from VM Software, a Reston, Va. firm that specializes in so-called utility programs that let users get more mileage out of their mainframes. VM just reported 1988 revenues of $51.7 million, up from $36 million in 1987, and net of $7.4 million, or 98 cents a share, up from 54 cents.

The demand for mainframes is indeed shrinking, but customers are trying to squeeze more life out of them without paying for more hardware. And while computing power may be moving out of the hands of the men in the white coats and onto the desks of users, mainframes will live on as enormous storage devices, storing and sorting an organization's data. "The mainframes are becoming in effect enormous hard disks," says Robert Cook, 47, founder and chief executive of VM Software.

Cook knows how to exploit a niche. That niche is within the operating system for IBM mainframes. The system maintains order, letting the different parts of the computer and its attachments talk to one another. Cook's firm doesn't supply this operating system, which, for an IBM mainframe, almost always comes from IBM itself. Rather, VM Software supplies merely a few enhancements to the operating system—in fact, mostly for the one IBM calls VM. These extras can [illegible] things as compress files (so the user doesn't have to buy as much hardware from IBM), automatically make backup copies of files, provide security controls that are either stronger or simpler to use than the ones built in by IBM, and keep track of who's using the computer installation and how.

Dinosaurs? There are a lot of those big machines still plugged in, about 26,000 in the U.S. According to the market research firm Computer Intelligence in La Jolla, Calif., nearly half use VM rather than one of the several other operating systems IBM sells. VM Software, moreover, doesn't sell, it leases. Thus, it will have a revenue stream as long as the big old machines are kept running.

Karen Kasmauski

VM Software's Robert Cook
Eat or be eaten.

Cook argues that the outlook for VM is better than for the other operating systems. The reason has something to do with the name itself, which is short for "virtual machine." Virtual is computer talk for software that can give the user the illusion of having hardware or software that he does not in fact have. Thus, this operating system is particularly good at allowing a mainframe to coexist with other computers running different operating systems. To put it another way: VM makes a machine multilingual.

Such versatility is crucial in an age when customers mix and match different kinds of equipment. Indeed, VM Software aims to capitalize on that versatility by offering new utilities that enhance VM's ability to shift computer files from one brand of machine to another.

Cook calls VM "the white-collar operating system" because it allows nonexperts to easily access information stored on a mainframe. The mainframe of the future, he says, is a central repository of data for a large corporation, attached to all manner of smaller machines scattered through various departments. VM will become the glue that ties all disparate systems together. VM Software will supply the additives that make the glue work better.

Like Computer Associates, a rival specializing in other operating systems, VM has been busy broadening its product line. "We have to put on a fair amount of mass to remain competitive," Cook says. "And we took a look and decided we couldn't do it with internal growth." Eat or be eaten. According to Broadview Associates, the Fort Lee, N.J. investment banking firm, there were 338 mergers and acquisitions in the software sector last year. Of those, about 40 were of mainframe software companies.

The past year has been busy for Cook's company, as it acquired two companies and licensed products from a third. It purchased a small firm with expertise in IBM's relational database management system. (Relational databases, a hot topic in software circles, allow users to easily draw information from several files at once.) VM also bought the Systems Center, whose products specialize in transferring data between computers running dissimilar operating systems. Besides Systems Center's products, VM took on the name itself as its own last month.

Politicians who don't like the idea of a service economy speak contemptuously of "Americans sweeping up around Japanese computers." Sweeping up around someone else's computers is sort of what VM Software, a.k.a. the Systems Center, is doing. Cleaning up is more like it. ■

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National advertisers remain squeamish about them, and may be getting more so, but the number of trash TV shows is rising fast. Something's got to give.

The price of "cheap eyeballs"

By Fleming Meeks

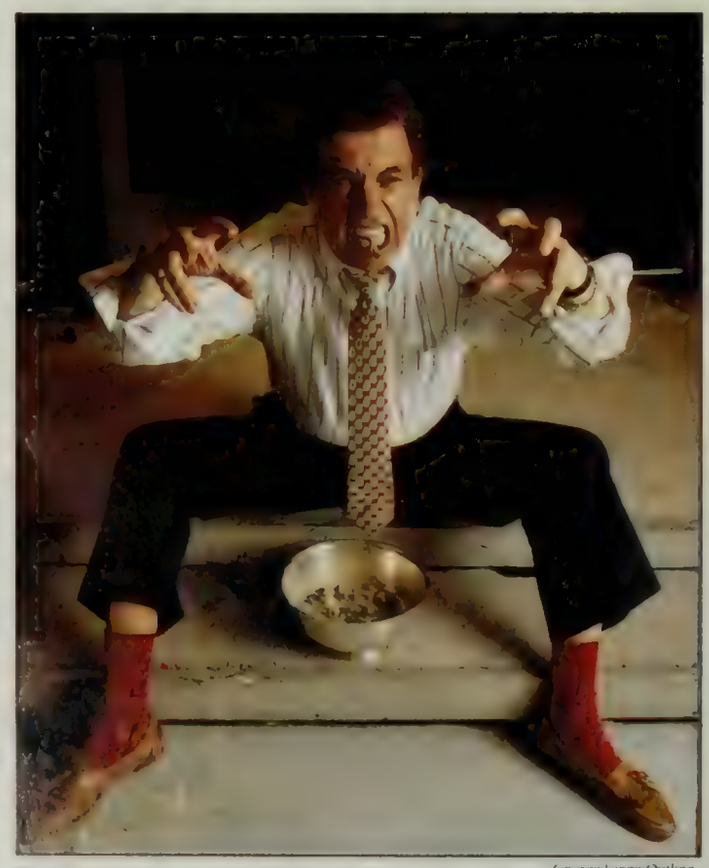
IT'S A LITTLE after 9 in the morning and on Channel 4 in New York City Geraldo Rivera is verbally bludgeoning a man who admits to molesting his 13-year-old daughter. "You were getting off on it, weren't you?" Rivera shouts. Among *Geraldo*'s national sponsors: General Mills' Yoplait yogurt, Lysol from Eastman Kodak and Dole's pineapple sauce.

On King World's *Inside Edition*, at 7:30 p.m. in New York City, we watch grainy film of Marilyn Monroe's dead body being wheeled out of her house on a gurney while a breathless voice-over revives tired gossip of a Kennedy-led murder conspiracy. Cut to a commercial for Kraft's Budget Gourmet frozen dinners.

And on MCA's *Morton Downey Jr. Show*, the pear-shaped, chain-smoking, self-styled "loudmouth" defends convicted assassin James Earl Ray's claims of innocence—citing Ray's remarks in a taped interview with Downey himself—while making his guest, political scientist/author David Garrow, out to be a fraud. "This [illegible] screams Downey, [illegible] Garrow's Pulitzer Prize-winning biography of [illegible] King into the [illegible] a piece of gar- [illegible] Downey's national sponsors on this show included American Brands' Jergens Lotion and Chesebrough-Pond's Q-Tips.

You will not find these national marketers advertising in the less than genteel pages of the *National Enquirer*, the *Star* or their raunchier relatives among the supermarket rack tabloids. But tabloid TV, until very recently, has been a different story.

National advertisers that have bought time on *Inside Edition* or *A Current Affair* have included Heinz, American Airlines and Pizza Hut.



Trashmeister Morton Downey Jr. George Lange/Outline

Nearly 100 sponsors say no to his show.

The price, for Downey's average 2.8 million viewers, certainly is right. A 30-second advertisement on *Downey*, for instance, costs about $2.40 per 1,000 viewers, versus about $6.40 per 1,000 viewers of *The Tonight Show*, against which *Downey* is pitted in 43 local markets at the moment. "It gets large numbers of eyeballs cheap," says Charles Bachrach, a vice president at Western International Media, which buys time for advertisers on these syndicated shows. Bachrach buys national spots on *Downey* for Lee Nails, the folks who make paste-on fingernails, a more traditional tabloid advertiser.

Cheap these eyeballs may be, but a good many advertisers don't want them at any price, and their ranks seem to be growing. A recent survey conducted for Harrington Righter & Parsons, a rep firm selling national advertising spots on syndicated shows, reports that nearly 100 national and regional advertisers refuse to put ads on the Downey show and about 80 shun *Geraldo*.

And in the coming year it looks increasingly likely that these reluctant ones will have more company. James Witherell, managing director of Stan Merritt Advertising, which handles Blistex, the lip balm, says the company will probably not continue to advertise on *Downey*, citing the client's uneasiness about the show. And Burger King, which has run spots on *America's Most Wanted* and *The Reporters*, says it plans to steer clear of gamier tabloid shows like *Inside Edition* and *A Current Affair*. This, despite the fact that they deliver Burger King's target audience—males and females of ages 18 to 49. Whether the company will return to the other tabloids, a spokesman says, has not been determined. In truth because these are new and developing programs, it's quite likely many of the sponsors were not fully aware of their content and were just buying all those eyeballs.

Even some of those who are buying Downey will only talk about it these days on the condition that they not be identified. Explains one: "We care [about programming environment] to the extent that we can get away

with it. We want to reach consumers, and if this is what consumers want to watch. . . ."

But heavyweights like Campbell Soup, McDonald's, Procter & Gamble and Kellogg have all said nix to sleaze shows like *Inside Edition, The Morton Downey Jr. Show,* Tribune Entertainment's *Geraldo* and 20th Century Fox' *A Current Affair* and *The Reporters.* "We're not passing judgment on the viewers," says George Mahrlig, director of media services for Campbell Soup. "They're probably good customers. We just don't feel that, given our corporate image, we want to put our advertising in that kind of hard-edged environment."

Adds McDonald's spokesman Charles Rubner: "We're a family-oriented business, and we look at our advertising as an extension of our relationship with our customers." McDonald's evidently doesn't consider "reality-based" murder and mayhem to be family fare.

None of this, so far, has daunted the folks producing such shows. Recently added to the lineup of ersatz news programs available for syndication is Group W's *This Evening.* Come fall we can expect similar fare from Paramount's *Tabloid.* Also in the works: *$Reward$,* MCA's clone of King World's *America's Most Wanted,* with cash bounties for viewers who help catch crooks, and Tribune Entertainment's *Cop Talk,* Qintex' *Crime Diaries* and Orion's *Crime Watch Tonight.* You get the idea.

Are there enough national marketers out there to support all the trash television shows now on offer? Not at all, certainly. Given advertisers' demonstrated squeamishness, and barring some astonishing change in audience viewing habits, something has got to give.

A misguided plunge into urban cowboy fashion had Tony Lama's bootmakers in El Paso eating dust. Now they're back.

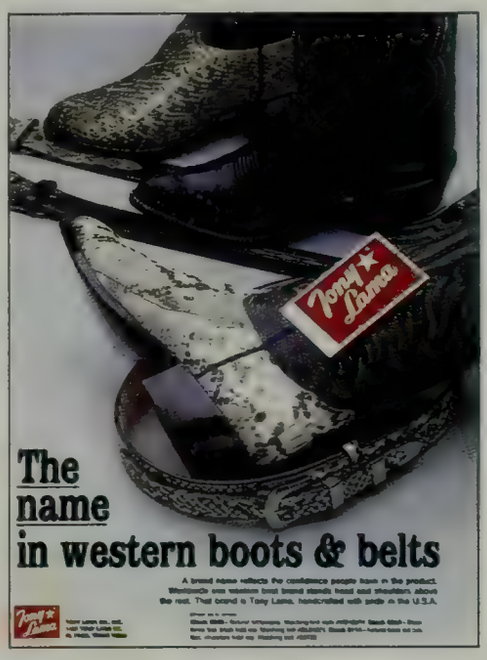
Urban Cowboy II

By Kerry Hannon

ON ANY GIVEN Saturday afternoon these days, Billy Martin's Western Classics shop on fashionable Madison Avenue in New York is packed. It is all but impossible to squeeze through the avid buyers to see the rows of handsome, hand-crafted cowboy boots, let alone try on a pair. The skins are exotic and the prices breathtaking. There are silver-gray ostrich skins from Justin of Fort Worth ($850) and shiny jet-black lizard-skin Luccheses ($695) painstakingly made in El Paso, alongside the richly textured white-and-black python (as in the snake) boots from Tony Lama ($350), without doubt the best known of the three bootmakers

Considering the prices, it's small surprise Americans spent nearly $1 billion on boots last year, up from an estimated $700 million in 1987. The industry hasn't seen such action since 1980, when the film *Urban Cowboy* transformed regional cowboy styles into a national fashion. But the boom quickly busted. And by 1985 Tony Lama was moseying into its first losing years since Tony Lama Sr. started the firm in 1911 making rugged footwear for the U.S. cavalry.

Now, having curtailed production and sharply pared their payroll, Tony Sr.'s two sons—Tony Jr., 57, and Louis, 55, chairman and president respectively—are churning out 700,000 pairs of boots a year and making money again. Their factory is in the process of being renovated and modernized. The question is whether they learned anything from their brush with the perils of high-fashion marketing nearly a decade ago.



A recent ad in Western Horseman
Nice, but do they read it in L.A.?

The western boot business, at least the high-profit part, is indeed once again a high-fashion enterprise. Big-name designers like Kenneth Cole, Charles David and Georges Marciano are all rolling out their own versions of western styles. But the grand old names in bootmaking are right there too, and the grandest, it seems, is still El Paso's Tony Lama.

Lama, which traditionally made a nice dollar selling tough-as-nails, hightop buckaroo riding boots to real live cowboys, has shifted its product development to where the new money is: higher-margin, custom-made boots of expensive, exotic skins like ostrich and eel, armadillo and anteater, boa, lizard and even sea bass. Yes, you can have basic black. But women, particularly, in stores like Nordstrom's and Bloomingdale's, are buying wild colors as well, from hot pink and rich grape to neon blue and warm apricot. Prices start around $200, but boots in hard-to-get black alligator can cost over $1,000.

"Our customer base has changed from the rodeo cowboy to the individual who wants to wear the boots with a tuxedo or with a business suit," says Johnny Walker, 43, an ex-partner at Deloitte Haskins & Sells and now Lama's chief financial officer. "Our growth is coming from the major metropolitan markets like New York and Los Angeles where we need to sell our product in fine men's stores like Brooks Brothers, not Bob's Boot Barn," says Walker.

So far, that is happening. Last year's

Edward McCain

Tony Lama Jr., Louis Lama and Eva Castañeda, who supervises exotic skins for the bootmakers
"Our customer base has changed to the individual who wants boots with a tuxedo or with a business suit."

sales were up 20% over 1987. Margins too are expanding nicely. With around half of the sales now coming from exotic-skin boots, up from less than 20% in 1981, and another 30% from custom orders, Lama's gross margins have swelled from 20% in 1982 to 27% today.

The Lama brothers' challenge, in the midst of lots of hard-riding competition, will be to ride the trend for all it's worth but not get carried away. There's at least tentative reason to worry that their hand on the reins is not all that commanding.

The company has budgeted a meager $1.3 million for advertising this year, slightly more than 1% of sales, up slightly from last year but well down from a peak $3.5 million in 1982. And though Walker talks enthusiastically about selling to an entirely new customer base and in better stores, his ad dollars are primarily channeled into regional, western advertising slotted for billboards, radio and print aimed at cowboy-oriented special events like the Houston Rodeo and Cheyenne Frontier Days.

Walker, so far, has no plans that [illegible]le the fashion magazines, for ex[illegible]ven though the Brooks Broth[illegible] Bloomingdale's customer is [illegible]ely [illegible] read *GQ* or *Vogue* than [illegible]*ews*. "We home in on specific [illegible] with regional merchandis-

Edward McCain

Wood pegs still go in the insteps
Handcrafting 700,000 pairs a year.

ing," says Armando Romero, marketing director.

The Lamas might check out their approach with that of their main competitor, Justin Boots in Fort Worth. Says Bill Edmondson, advertising director for Justin, who also talks enthusiastically about the high-fashion buyer: "We are telling people, 'Hey, just because you are wearing a suit and a tie, it doesn't mean no boots. It means which ones.' " Justin, which spends some $6 million, about 6% of sales, on advertising, is also marketing to fashion-conscious women through four-color ads in *Texas Monthly* and *Elle*. One ad shows a woman's legs in white lace nylons from the knee down and wearing a pair of cream-colored Justins. Encircling the boots is a strand of lustrous pearls. The copy reads, "Pearl of the West . . . capturing the essence of pearls in boots made to dazzle."

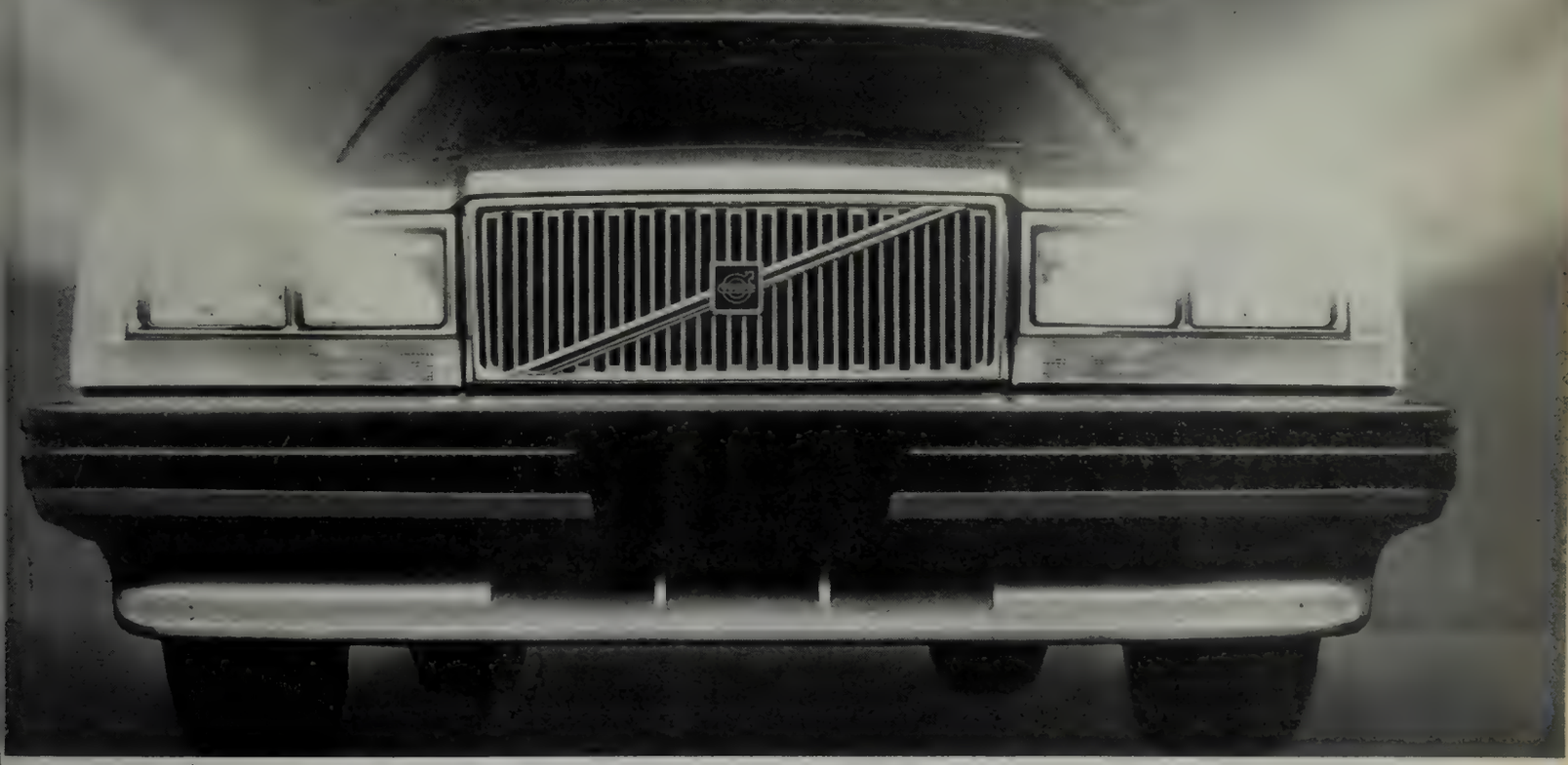
Some results of all this: Boots are 52% of Justin's sales (the firm also makes bricks, of all things), up from 37% three years ago, and margins, nuzzling 29%, continue to grow.

There's little dazzle, so far, from Tony Lama's marketing people. "The Tony Lama logo is still our most important marketing device," says Romero. Maybe so. But it is easy to see that selling a pair of $550 ostrich-skin boots to an urban cowboy in Los Angeles is not quite the same as selling a $200 pair of basic brown riding boots to a calf roper in Denver.

Tony Lama could not now go profitably back to the cowboy business even if it wanted to. There is no real sales growth coming from that dying breed. But to play in the big leagues, it's important to learn the rules of the game. It remains to be seen whether Lama has the hang of it. ■

ANNOUNCING THE ARRIVAL OF THE 16-VALVE VOLVO 740 GLE.

ESTIMATED TIME OF DEPARTURE: IMMEDIATELY.



The 16-valve 740 GLE is Volvo's most recent addition to the 700 Series. And one that any motoring enthusiast will surely welcome.

Beginning with its twin-cam 16-valve engine that achieves 153 horsepower, this new Volvo is equipped to deliver in all areas of performance. In fact, the editors at *Road & Track* praised it by saying "There's none of the low-end weakness that plagues some other multi-valve power plants".

There's a Constant Track rear suspension that improves road handling and reduces road noise at the same time.

Something else to feel good about is that the 740 GLE 16-valve offers anti-lock braking and a driver's side Supplemental Restraint System as standard equipment.

Other standard features include power sunroof, air-conditioning, heated front seats and a 4 speaker audio system that turns the passenger compartment into a traveling conservatory.

So visit your Volvo dealer for a test drive soon. Before the 16-valve you've been waiting for, is no longer waiting for you.

VOLVO
A car you can believe in.

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Personal Affairs

Edited by William G. Flanagan

Baby boomers, now in their 40s, get misty-eyed about the Sixties and early Seventies. You can guess what that means for the price of dream cars from that era.

Muscle fever

By Neal Santelmann

"They weren't known for good brakes or good handling," says Paul Zazarine, editorial director of *Musclecar Review*. "But what those cars could do, and do with brutal alacrity, was go fast in a straight line."

You remember those cars, of course. The Pontiac GTOs of John DeLorean. The Plymouth Road Runners and Dodge Challengers. The Shelby GTs. Beastly fast, ruggedly handsome. And now eminently collectible. The kids who once drooled over those cars are now affluent enough to buy what few of them could then afford.

Prices have been getting heady, too, of course, but they are still nowhere near the high seven figures some classic cars fetch. Only a handful of rare muscle cars have yet reached six figures. The Pontiac GTO hardtops that originally sold for about $3,100 in 1965, for example, went for $8,000 five years ago and now fetch about $17,000 each. At the January Barrett-Jackson auction in Scottsdale, Ariz., a 1966 Ford Mustang convertible sold for $50,000; a 1968 Shelby GT 500 fastback went for $52,000; a 1967 Corvette 427 went for $52,500. Many muscle cars, from Ford Fairlanes to Plymouth Road Runners, can be had in good shape for $15,000 to $20,000—up from a few years ago, but not out of sight.

Challenger as advertised in Look magazine in 1969
Sticker price then: under $4,000. Market value now: about $17,000.

No surprise, then, that collectors priced out of the classic car market have caught the muscle bug. Consider the evolution of Gordon Apker, 44, chairman of Monarch Foods in Seattle and a former head judge of the Classic Car Club. His collection of cars, built over the last 20 years, once consisted almost exclusively of classics. Now cars that were hot in his own youth—Apker graduated from high school in 1962—compose one-third of his 45-car collection. "What I've tried to do is create a collection that tells a story," he says. It's a story of speed. In GM cars, for instance, Apker has a 1957 fuel-injected Corvette, which he sees as the beginning of the modern muscle car era. He also has a 1959 Chevrolet Impala, a stick-shift convertible with a 348-cubic-inch engine. (Never before this model, he says, had GM put a four-speed gearbox behind such a large engine.) He also owns a 1962 Chevy convertible with a 409-cubic-inch engine.

Among Fords, Apker has a 1964 four-speed Galaxie 500 XL convertible with 427 cubes under the hood. "It was basically their race motor, and they put it on the street," he says. Ford came out with this car in 1963, but Apker chose a 1964 because that was the year the entire Ford line won Car of the Year. He also has a 1967 Shelby GT 500 as well as a 1969 Boss 429 Mustang—Ford's answer to Chrysler's Hemi engine.

Hemi is the critical buzzword in today's muscle car world. Strictly speaking, it refers to the hemispherical combustion chamber of the engine, which produced more horsepower than most conventional engines. In the early 1950s (the Japanese in those days were hardly a factor in the U.S. market), Chrysler first used hemi designs in its passenger cars. In the 1960s Chrysler and Ford dropped them into both street cars and race cars. But in collectors' argot, "Hemi" has come to mean Chrysler products

Shelby GT 500 convertible, 1969 vintage, at Auction Autorama in Detroit last month
Lots of ooohs and ahs, but no one ponied up the $64,000 asked by its owner.

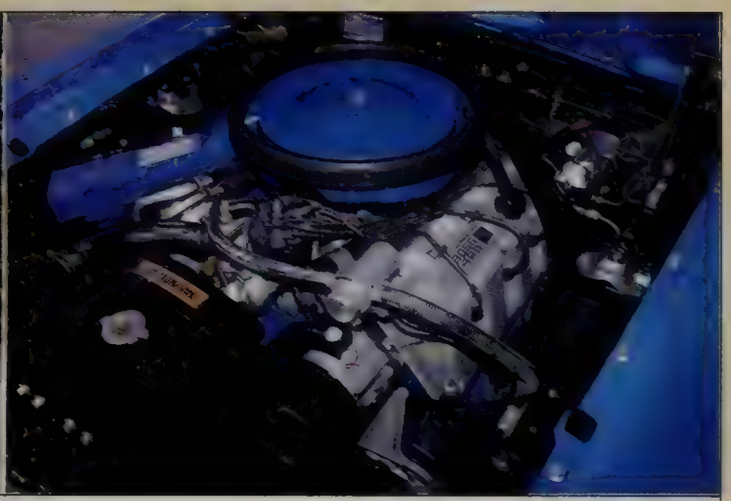
Gregory Gaymont

of the era.

Apker has his share of significant Chryslers, too. "My first car, when I was 16 years old, was a 1955 Chrysler Hemi," he recalls. Now he has a 1966 fastback Dodge Charger with a 426-cubic-inch Hemi and a 1971 Plymouth 'Cuda, the lightest body that Chrysler ever put on the street with its biggest motor. "I got the first year in Dodge with a Hemi car," Apker explains, "so I wanted the last year in Plymouth with a Hemi."

John A. Scanelli, 41, a retired attorney and adjunct professor on leave from William and Mary, has been seriously collecting muscle cars for the last six years and currently has about 30. Why doesn't he collect the classics? Typical of the baby-boom car collectors, Scanelli says he admired the high-powered cars in his youth and they're all he knows. "You can't collect everything," he says. "What does, say, a Model A hold for me? I may see Eliot Ness on TV and think that's great, but I can't identify with the cars he drives."

Scanelli spends a good 40 hours a week on his collection, including a lot of time looking through local auto publications for new finds. It's through such local classifieds as the *Auto Trader* that Scanelli has found many cars before they get into the national auto publications.



The 1970 Boss Mustang, equipped with a 429 cubic inch engine
This version of the car that made Lee Iacocca famous now fetches at least $25,000.

Musclecar Review

Rick Cole's 1989 Gold List

Which cars have the most appreciation potential over the next five years? Below is Rick Cole's fifth annual Gold List, a guide closely watched by serious collectors. The comments are his. Cole is head of Rick Cole Auctions in North Hollywood, Calif., one of the nation's top three collector-car auction firms. Note: There will be 550 collectible cars on the block (with no reserve put on them by the sellers) at The Auction in Las Vegas' Landmark Hotel Apr. 22-23. About a third are muscle cars. Last year $23 million worth of automobiles were sold there—with $13 million worth going to foreign buyers. Call 702-794-3174 for additional information.—N.S.

Auctioneer Rick Cole
He's got a little list.

Gregory Gavmont

1969 Boss 429 Mustang—A high-horsepower rocket that is hard to find under $25,000, but certainly well worth it.

1971–74 Jaguar E Type V-12 Coupes—Some convertibles are bringing upwards of $100,000; the coupes have to move soon.

1965–70 Plymouth Hemi-powered Chargers, Belvederes, etc.—The big brothers to Plymouth's smaller-body muscle cars.

1969–71 Mercedes-Benz 280 SL—This two-seat German-made roadster continues to appreciate at a steady rate.

1953–54 Buick Skylark convertibles (unrestored)—There are still a few around in unrestored condition. These cars are considered classics of the 1950s.

1965–66 Shelby GT 350s (unrestored)—Hard to believe, but you can still find a few left in unrestored form between $17,000 and $22,000.

This car's potential makes it worth restoring.

1957–60 Cadillac Coupe deVille—The MTV generation, trend-setters and boulevard hipsters are fueling the demand.

1964–65 Pontiac GTO Coupes—While convertibles have appeared on a previous Gold List, the current muscle-car craze makes the coupes attractive prospects.

Mid–to–late–1950s Chrysler 300 letter cars B, C and D—Chrysler letter cars in coupes and convertibles are beginning to rear their heads, as they were the first authentic muscle cars.

1958–60 Lincoln convertibles—These cars were so large they practically had their own zip codes. Their flamboyant styling and push-button mentality provided Lincoln with the answer to the big, finned Cadillacs.

Scanelli's favorite is the one he drives the most—a 1965 Pontiac GTO convertible. He has already spent $12,000 restoring it.

Another longtime collector who has switched his emphasis to muscle cars is Otis Chandler, retired chairman of Times Mirror Co. At 61, he's no baby boomer, but that hasn't dampened his enthusiasm. "In those days I was hauling around kids on the weekend to Boy Scout meetings," he says. And he's still particular about which muscle cars he is adding to his legendary fleet of some 60 autos, put together over the past 21 years. "The early 1960s cars were kind of ugly-looking, boxy cars, and they don't appeal to me at all," he says. "Cars from 1967 to 1971 are more esthetically pleasing.

ere are some older, serious col- who formerly were just clas- llectors," says Chandler. tched me, laughed at me, I was crazy. Now they're ng with me."

Two years ago Chandler bought a 1971 Plymouth Hemi 'Cuda convertible—the last of only seven made in 1971. "My collection is really based on rarity as much as anything else," says Chandler. A 1970 Dodge Coronet Hemi convertible that Chandler just bought is the only one of its kind, and his 1970 Dodge Hemi Challenger convertible is one of just five left. In fact, Chandler doesn't collect any model of which more than 100 were ever made.

What makes for the best collectible? Condition is key, as restorations aren't cheap. Also, since muscle cars were light on options, the more the merrier—as long as they are correct for that model year. And since most muscle cars were designed to run fast, fewer convertibles were made. So a hardtop will always take a backseat.

As with virtually all hot collectibles, there are two real dangers in collecting muscle cars. The first is overinflated prices, a result of too much speculation. Says the *Musclecar Review*'s Zazarine: "The bottom's going to drop out of this thing, and then [the speculators] will all go like lemmings over to something else."

The second danger is counterfeits. The more original the car, the better. In fact, one of the phrases most frequently used to describe an original muscle car is "all the numbers match." That means that the Vehicle Identification Numbers and other codes on the car's frame, engine, transmission and other parts are all correct for a particular car. But correct numbers don't necessarily guarantee authenticity; codes are often faked on bogus engines and trim tags can be replaced easily. Advertisements for fake tags and titles were so commonplace in *Hemmings Motor News* that they were banned three years ago.

It's easy to get burned if you don't pay attention to the codes. Even Chandler, no novice when it comes to car collecting, takes an expert along with him to check cars out before he buys. Take a tip from Otis.

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A QUARTZ BLANCPAIN WATCH. AND THERE NEVER WILL BE.

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Wall Street's other arbs

LENNY MISURACA, 36, of Union, N.J., was convinced he was taken to the cleaners by his broker in 1985. The registered rep's takeover tip soured. To make matters worse, there was also a dispute over the number of warrants he agreed to buy, compounding his losses. When the smoke cleared, Misuraca found himself out $35,000.

Horsefeathers, said the broker, Frank Pena, then with Philips Appel & Walden (now defunct). He told Misuraca, in effect, you're a grownup and, well, things happen. "Basically, it was my word against the broker's," Misuraca recalls.

Case closed? It certainly looked that way. Few lawyers would take such a flimsy case to court.

Yet there was another avenue to explore. Misuraca soon learned from his lawyer, Roger Deitz, a former senior trial counsel for the Securities & Exchange Commission, that he could go to arbitration.

Welcome to the brokerage industry's version of *The People's Court*. If you have a margin or options account, your contract usually will note where to bring disputes. In most cases, it will be either the National Association of Securities Dealers or the New York Stock Exchange, which together drew 80% of the approximately 7,000 arbitration cases that were initiated last year.

There are other venues for arbitration, too, however. Your broker is probably a member of several securities exchanges, so you might also seek redress at any of these organizations—even if they're not written into your contract. Have your lawyer look into it.

If you're a cash customer, you probably don't have a contract with your broker. Still, you can have your case arbitrated before any of the exchanges your broker belongs to. Again, have your attorney check it out.

In about 20% of contracts, the broker allows you to opt for the independent American Arbitration Association. The AAA, with no ties to the brokerage industry, gives you more say about who arbitrates your case.

"The advantage of arbitration is it's quick, relatively inexpensive and final," boasts Edward Morris, arbitration director at the NYSE.

Of course, the brokerage firms love arbitration. It allows them to avoid the protracted and messy legal proceedings and the large damage awards that juries, ever generous with other people's money, commonly grant. And appeal is extremely difficult.

Critics contend that the deck can be stacked against the complainant in arbitration hearings held before securities organizations, since most arbitrators have some connection to the brokerage community.

Brokers counter that investors win more than half the arbitration cases. But "winners" come away with an average of 15 cents per dollar of claim, according to a recent NYSE study.

Despite those odds, arbitration is on the rise. One major reason: There's nowhere else to go. In 1987 the Supreme Court, in the Shearson v. McMahon case, gave brokers the right to require that clients take their cases to arbitration rather than court. (In rare instances, though, you may still be able to get to court if a violation of federal securities laws is alleged.)

And the process may be getting less one-sided. Rumblings from a House subcommittee chaired by Representative Edward Markey (D–Mass.) have given brokers the jitters. Markey's subcommittee may introduce a bill that would once again permit investors to take brokers to court.

Greg Couch

The industry is acting to quiet these concerns. Arbitration clauses, now buried in customer contracts, will soon be highlighted. New rules would make discovery easier—compelling brokers to reply within 30 days to requests for documents.

The industry is also imposing stricter guidelines on picking "public" arbitrators. The industry still insists on one industry insider on the three-member panels, however.

If you are considering arbitration, here are some tips:

- Remember that in arbitration, you have only two opportunities to make your case: when you file your complaint and when you appear before the arbitrators. Hearings are short, usually two or three days. You want to spend that time making your case orally, not introducing reams of documents into evidence. Hint: Take advantage of the industry's more generous attitude on discovery. Attach all pertinent documents to your complaint, says prominent investors attorney Theodore Eppenstein. This gives the arbitrators time to read them and helps you set up a convincing summation at the actual hearing.
- Arbitrators don't give much weight to past disciplinary actions against a broker. But don't let this stop you from attaching such reports to your complaint. If the broker has a sordid history, but tries to deny it at the hearing, the arbitrators will take note. (The best place to check out your broker is your state securities commission, which will provide detailed information on disciplinary actions that have been taken against an individual broker. The North American Securities Administrators Association has an investors rights guide that includes a directory of state administrators.

Call 202-737-0900.)

• Don't go overboard on requests for documents. All you need to prove a churning case, for instance, are the monthly statements and possibly the confirmation slips. Other useful documents include commission printouts, which will tell if the fees you paid are out of proportion to other similar accounts at the firm. The order ticket can also be helpful.

What are your chances of winning? "Arbitration is like falling in love," says Deitz. "You never know what's going to happen."

Indeed, as weak as Misuraca's case appeared, Deitz managed to convince the American Stock Exchange arbitrators of the merits of his client's case, and he was awarded the full $35,000 he lost, plus $2,000 in expenses. But after paying Deitz, Misuraca came away with only $24,000. "In my eyes, I still lost," he laments.

A useful guide to arbitration is attorney Stuart Goldberg's nuts-and-bolts book *Customer Recovery Guide to Stockbroker Fraud and Securities Arbitration.* Send a $2.50 stamped, self-addressed 8-by-12-inch envelope to Goldberg & Schneider, 39 Broadway, Suite 2807, New York, N.Y. 10006.

Better yet: Stay out of harm's way in the first place by choosing your broker with care. Monitor your statements and trades carefully. Notify your broker of any mistakes immediately with a certified letter. And never give your broker discretion over your account.—**Edward Giltenan**

Collectors

Black-and-white fever

Dave and Reba Williams have an affinity for large numbers. As chairman of Alliance Capital Management, he manages over $35 billion. As a collector, Williams and his wife, Reba, have amassed one of the finest collections of American prints (including lithographs, etchings and engravings), numbering around 2,000 works. Their collection, started 15 years ago, focuses on black-and-white images of industrial America from the 1930s and 1940s. It's a classic case of how a first-class collection can be assembled without spending huge sums.

The Williamses collect with the intensity of the obsessed. In constant contact with dealers, galleries and auction houses, they buy on average one print a day, all the while pruning their collection by sloughing off the low end to libraries and museums.

There are few headlines to be garnered in this kind of collecting, but lots of satisfaction. "Prints are the backwater of collecting," says Williams. "By any normal definition, there's no glamour in this field." However, the pleasure that the Williamses derive from their collection is threefold: intellectual, acquisitive and nostalgic.

Researching the history of their prints and artists gives the Williamses a common bond in their private lives. "There is a seemingly endless reservoir of the unexplored in prints," says Williams. "Whereas everything is already known about artists like Monet," adds Reba, who just completed her master's degree in art history at Hunter College in Manhattan. She likens their research to a treasure hunt, with knowledge and personal growth the goals. They happily groan about a four-year backlog of research projects.

"I have the typical collector's lust for wanting to own things," says Williams. "I don't think it would matter much if it was prints or match covers." Both have had the collector's bug since childhood, when Reba hoarded Storybook Dolls and Dave traded stamps.

Ross Lewis

Dave and Reba Williams
The "backwater" suits them fine.

Because the number of prints made by an artist can range anywhere from 1 to 1,000, even the finest prints have historically remained very affordable. Many prints sell for under $1,000 and few command more than $10,000.

While literature on this subject is slowly growing, the best source of education is frequently an established dealer. For potential collectors, the Williamses advocate haunting print galleries, then targeting one period or artist. As with paintings or sculptures, the range of styles is vast.

For example, the couple recently snapped up a 1940s print by Alexander Calder depicting wirelike human figures. Calder a printmaker? You got it. He briefly experimented with the medium 40 years ago. It's not unusual and part of the fun—finding artists who are famous for their work in another medium but remain obscure in prints.

This collecting team splits wide apart when describing how the prints affect them. Dave, who was born in east Texas in 1932, identifies strongly with the harsh intensity and striving depicted in many of the Depression-era images. In contrast, Reba, who was born in 1936 in the countryside of North Carolina, is more fond of floral woodcuts they have at home. "There are things from our past that we want to keep, that compel us," he explains. "That is a very powerful influence on the types of images that we select."

Without interfering with his job, print collecting has become a mainstay of Dave Williams' life. His wife says: "When the stock market crashes, or at a dull dinner party, I can see a look come into Dave's eyes, and I know he is going through the prints." "It's true," laughs Williams. "It's wonderful to mentally switch off one's hearing aid and concentrate on the collection. It's our recreation: the learning and the collecting."

The couple jokes that Dave Williams accepted the job at Alliance Capital if only because the offices had 50,000 square feet of empty space. "It was like waving a red flag at a bull," laughs Reba.—**Christie Brown**

What makes Pepperidge Farm one smart cookie company? People like Herb Tolmich, the Thomas Edison of cookies.

Pepperidge Farm's doughboy

By Dyan Machan

DOWN A LONG CORRIDOR from the executive suite, in a cubicle with a desk, phone and little else, sits Herbert Tolmich, 61, Pepperidge Farm's manager of product development. He is surely one of his company's most valuable assets. Tolmich, whom everyone calls Herb, is the craftsman behind the conception and design of Pepperidge Farm's 44 varieties of cookies and 22 varieties of crackers. "There isn't anyone in this company who knows more about cookies than I do—and I'm not afraid to say this," says Tolmich. After 40 years in the cookie business—13 at Nabisco and the last 27 at Pepperidge Farm—Tolmich figures he is entitled to boast a bit.

He's right, and Pepperidge Farm's performance in the marketplace shows it. The $2.5-billion-a-year packaged cookie business in the U.S. has been fairly flat for several years, but Pepperidge Farm's market share has climbed from 4% in 1986 to over 6% today. Cookies account for one-third of Pepperidge Farm's $500 million sales. Pepperidge Farm, in turn, contributed 13% of parent company Campbell Soup's operating earnings last year, up from 10% in 1985.

Pepperidge Farm's wholesome New England image and classy packaging are obvious assets, of course, but it's how the cookies taste that ultimately makes for satisfied customers. That's where Tolmich comes in.

He is the kind of manager too uncommon in companies these days—the anonymous but devoted middle manager who loves his work, cares about his product and takes pride in what he does. Nothing's better to Tolmich than to walk into a store and announce to his wife, "Hey, there's the cookie I was telling you about." At parties, Tolmich revels in the mystery of his profession. "People always ask me what I'm working on," he declares. "But I can't tell them. My work is secret."

Tolmich's job is to work with Pepperidge Farm's marketing department to design and develop cookies that people will want to buy again and again. In 1985 marketing told Tolmich to come up with something that looked homemade, like the lumpy cookies, freshly baked on the premises, that fill suburban shopping malls with homey aromas. A tough assignment, that, since the cookies that Pepperidge Farm sells have to come out of packages, not ovens, and must remain fresh on store shelves for up to 16 weeks at a stretch.

So Tolmich and his helpers began stirring up cookie batter, and dozens of batches later presented some 12 prototypes. Marketing liked 5.

Tolmich's next task was to figure out how Pepperidge Farm's four bakery plants could physically manufacture the cookies. They needed to look handmade—kind of lumpy and rugged and bulging with nuts and chocolate and all the other stuff your grandmother would have put in. Getting that look out of machines designed to crank out 20,000 cookies a day, each one precisely like the next, is obviously no easy matter.

Tolmich won't tell us how he did it. If you were he, you wouldn't either. If Tolmich came up with a winner and then spilled the beans on his production techniques, Nabisco and Keebler would soon be copying them. It's dog-eat-dog out there in cookieland.

In any case, these five cookies ("The American Collection," marketing styled them) have been in stores for about a year now. They're by far the fastest-growing, most popular new products Pepperidge Farm has ever introduced. If you like the way they taste, too, thank Herb Tolmich.

Tolmich got into cookies in 1949 after his employer, Zenith, turned him down for a $5 raise. From Zenith, where he worked in sales, he moved on to Nabisco, where he remained for the following 13 years working on Oreos, saltines and Ritz crackers. Then in 1962 Pepperidge Farm lured him away with an offer of a $3,000 raise, and there he's been ever since. Today he makes something in excess of $45,000, but exactly what, Tolmich won't say.

In his 27 years with Pepperidge Farm, Tolmich has come up with hundreds of ideas, and over 60 have made it onto store shelves. An impressive 70% of those have proved to be hits. It was Tolmich's idea to make cocktail crackers in the shape of butterflies. It was Tolmich who thought up adding orange filling to Pepperidge Farm's top-selling Milano cookies. "It was so European, so high class, why shouldn't we put orange in it?" he asks.

Whatever Pepperidge Farm has on the shelf, Tolmich is constantly trying to improve. The goldfish is Pepperidge Farm's number one selling cracker, but over the years Tolmich has tried every shape fish imaginable. He even fiddled with adding barbecue flavor and curry.

Along the way, Tolmich has had his share of flops. Take the Star Wars cookies that Pepperidge Farm planned to debut in tandem with the 1983 release of Steven Spielberg's *Return of the Jedi*. The cookies just never grew legs, perhaps because no one wanted

Pepperidge Farm cookie biggie Herbert Tolmich and colleagues critique a batch of goodies
Blow-you-away cookies to put a company in orbit.

Erich Hartmann/Magnum

to eat food in the shape of monsters from outer space.

Tolmich's job also has its frustrations. Over the years everyone from plant foremen to the company's purchasing agents has come up with at least one blow-you-away cookie concept absolutely guaranteed to put Pepperidge Farm in orbit. Needless to say, Herb Tolmich gets plenty tired of this, but sometimes he has to listen anyway.

Take what happened when Campbell Soup Chief Executive R. Gordon McGovern, who was president of Pepperidge Farm back in the 1970s, began pestering Tolmich to make macaroons exactly like the ones McGovern's mother made when he was a boy. Tolmich listened dutifully, suffering in the silent but certain knowledge that no macaroon will stay fresh for four days, let alone four months. When the pressure became too great to bear, Tolmich at last caved in and whipped up a test batch. And as he might have predicted, by the end of the week you could have thrown them through walls. That was the last he heard of McGovern's mom and her macaroons.

What is Tolmich's latest cross to bear? "Someone wants me to do a 'healthy' cookie," says Tolmich, rolling his eyes to show what he thinks of that.

Nonetheless, under a mandate from Pepperidge Farm President Richard Shea to reduce use of high-cholesterol oils in its products, Tolmich is spending a lot of time these days in the company's test kitchen. Inviting a visitor in, he rips open two packages of cheddar-flavor goldfish crackers, one marked "H" for a new cholesterol-free oil and the other marked "Control." To the untrained palate, the two taste just the same, but Tolmich has already rejected the new low-cholesterol model. "It was very close," he declares. "But this one lost a little bit of cheese."

Tolmich is a cookie world original, and when he retires Pepperidge Farm will be hard put to replace him. Does Tolmich get, or even seek, any credit for his life of kitchen triumphs? Did his cracker redesigns win him a trip to Hawaii or a Wall Street-size bonus? To Tolmich such questions are ridiculous. "I don't get credit," he says. "Credit is not my job. I'm product development." ■

Faces
Behind the Figures

Edited by Jason Zweig

Shipshape

Rich Frishman

Zeger van Asch van Wijck of the Port of Seattle
Pacific Rim Flying Dutchman.

The captain of the legendary *Flying Dutchman* eternally sailed a ghost ship that never came to port. In mid-January the Port of Seattle landed a real-life Dutchman who, it hopes, will power the port to the forefront of the Pacific Rim sea trade. The man at the helm: Zeger van Asch van Wijck, 41, who was second in command at the world's busiest port, Rotterdam, Holland, until Seattle brought him on board as executive director.

Why does Seattle want him? Under keen competitive pressure from other West Coast shipping centers, the port earned just $1.6 million last year on operating revenues of $114 million. Seattle wants van Asch van Wijck to improve on that performance.

The Pacific Northwest hub has some natural advantages. By steamship it's a day and a half closer to Japan than is Los Angeles. Moreover, it has excellent rail connections to inland U.S. markets, particularly the upper Midwest and the East Coast. To capitalize on the geography, the port plans to spend $650 million over the next five years to improve and expand Seattle-Tacoma International Airport, marine container and warehousing operations and computerized cargo tracking systems. Van Asch van Wijck may also develop land along the waterfront and near the airport, possibly for an international trade center.

Traditionally, the ports of Los Angeles and Long Beach have jointly accounted for more than 50% of West Coast container traffic. If a revived Seattle can now work with its long-time rival, Tacoma, the Northwest could wind up taking market share away from southern California. Clearly that is what the Dutchman seeks. Says van Asch van Wijck, "We have an old Dutch saying: 'When two dogs fight over a bone, a third dog runs away with it.' "—**Marc Beauchamp**

What goes up must come down

By early in the 21st century, some 100 nuclear power plants in the U.S. will have to be decommissioned, at a cost that could reach $60 billion. The Nuclear Regulatory Commission is now requiring utilities with nuclear plants to set up "decommissioning trust funds" that will be managed by outside firms.

That problem for the utilities spells opportunity for two young Philadelphia money managers, Robert Bernstein, 34, and James Meehan, 35, of old-line Delaware Management Co. (assets, $20.3 billion). They now manage decommissioning trusts for four utilities, including San Diego Gas & Electric and Virginia Power, giving Delaware some $125 million of the $500 million or so thought to be committed to trusts so far.

How did the two get into the virgin field of nuke trusts? The story begins in 1986 when Meehan, then with San Diego Gas & Electric, a Delaware client, advised Bernstein, a Delaware senior vice president, that Washington would soon require utilities to set up trusts. Bernstein thereupon sponsored a workshop on the subject for more than a dozen utilities, and even had Delaware set up a new computer system capable of recording each lot of securities traded for such trusts.

This past December Meehan left San Diego G&E to join Bernstein at Delaware, where the two are now grappling with what amounts to an actuarial Gordian knot: how to manage a trust with at least a 30-year maturity when no one knows for sure what it will cost to decommission a nuclear plant some time in the future (estimates range between $100 million and $1 billion per plant). "The complexities are staggering," says Bernstein. "It's an investment field that has absolutely no precedent." The only certainty: At some point the plants will have to be decommissioned, and trusts like the ones managed by the two men will have to pay the bill.—**Jason Zweig**

Leif Skooglers Woodlin Camp

James Meehan and Robert Bernstein
The complexities are staggering.

Rover boy

Rover Group of Great Britain has hardly been one of the triumphs of the contemporary business scene. In it are grouped most of the last remnants of the once mighty British auto industry, now reduced to just 15% of its home market. (Only Jaguar and Rolls-Royce remain as independent marques.) To a Scotsman named George Simpson, who has been heading the troubled British automaker since January, falls the task of preserving this remnant.

"I'm a lapsed bean counter," Simpson says, referring to his training as an accountant. "I gave up bean counting ten years ago," he pleads, adding: "Look at the track record. The companies that I've headed up have all prospered."

Simpson was tapped to head Rover following a successful earlier tour as managing director at Leyland, Rover's truckmaking division.

Rover, which has about $6 billion in sales but only a wisp of profit, is the latest name for the once great collection of British vehicles—Austin, MG, Morris, Rover and Leyland—that incompetent managers and bloody-minded unionists ran into the ground, and which the British government eventually nationalized. In 1988 Rover became a wholly owned subsidiary of British Aerospace, as part of Prime Minister Margaret Thatcher's privatization program.

Last year Rover sold 500,000 cars worldwide; that's not terribly impressive, but the company's U.K. sales were up 10% from year-earlier levels. With joint ventures with Honda under way and a $2 billion product program backed by British Aerospace, Simpson has resources in his new assignment. If he can now roll out cars that people really want, he could become one of British business' heroes of the 1990s.—**Jerry Flint**

Eli Reichman

Maytag Corp. Chairman Daniel Krumm
"I feel so removed from what is going on."

Damned if you do . . .

Not even Maytag Corp. Chairman Daniel Krumm, 62, is sure all the debt he has been loading into his company will keep raiders away. "What do I know?" he shrugs. "It probably makes us even more attractive."

Could be. Trading volume in the stock of this venerable Iowa-based appliance manufacturer has been jumping in unpredictable spurts all winter as Wall Street rumormongers keep whispering that billionaire financier Lester Crown, now Maytag's largest independent shareholder, with around 5% of the shares, is out for more.

Krumm, who likes to putter for an hour each morning amid the orchids and banana trees in his greenhouse before heading off for work, seems a bit taken aback by all the activity. "I feel so removed from what is going on," he says with a nervous laugh. "I miss the old Maytag. Everything was so clear then. You built the very best products and didn't worry too much about the price. Goodness gracious, I didn't realize how easy my life was."

What complicated Krumm's life was success, of course. Maytag was so profitable—and debt-free—that takeover rumors were inevitable. In late 1988 the diffident chairman borrowed around $750 million to buy Chicago Pacific Corp., which makes Hoover vacuum cleaners.

Now Maytag's debt is up and its margins are down, not just from increasing interest charges but also from increased competition and falling appliance sales. Suddenly the company looks ripe for a raider prepared to shake the place up. After 15 years as Maytag chief executive, Krumm sounds rather fatalistic about this turn of events. Says he, "You have to deal with what the world gives you."—**Kerry Hannon**

Laurie Sparham/Network Contact

Rover Group Managing Director George Simpson
"I gave up bean counting ten years ago."

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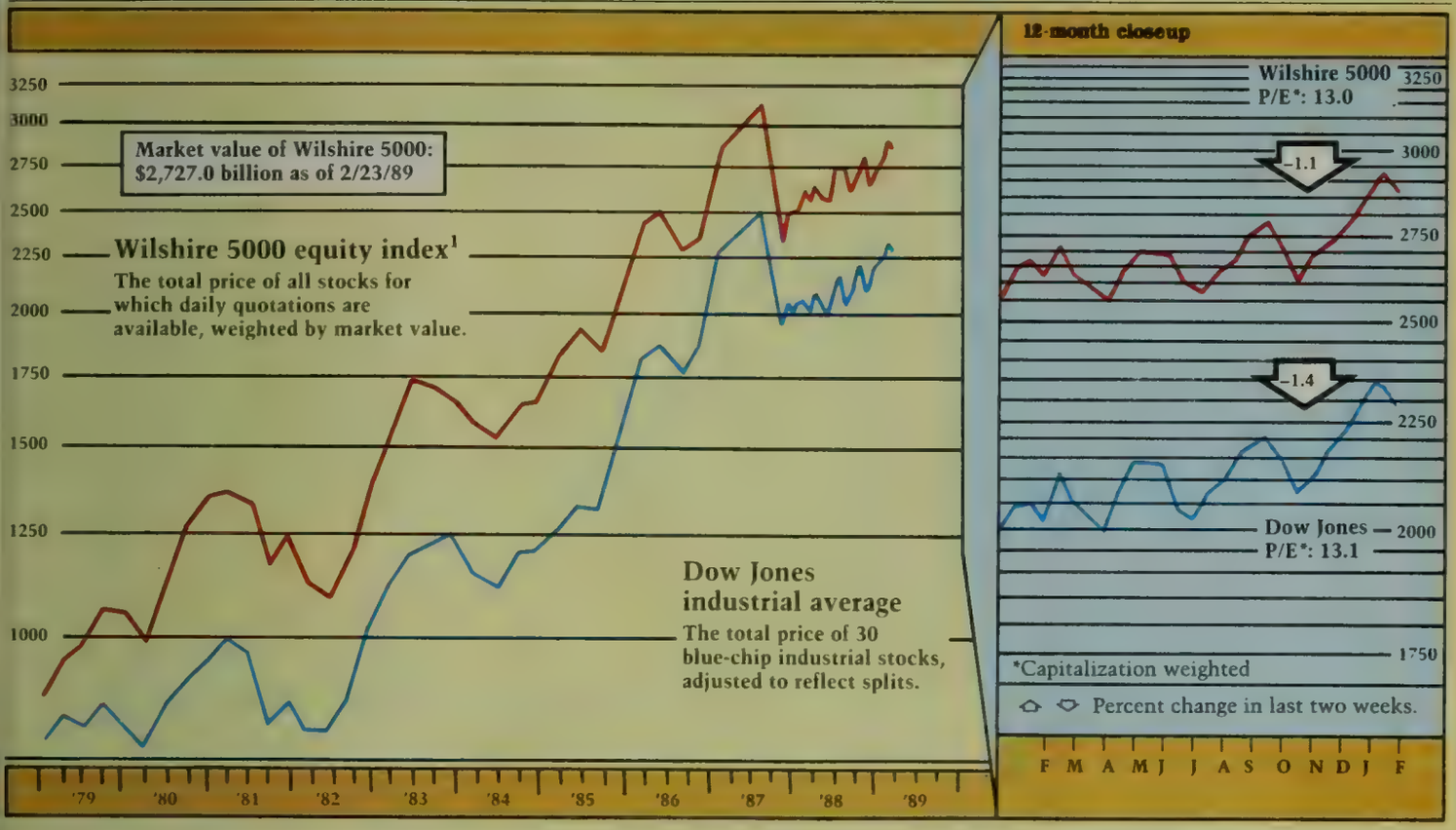


Investment advisers are less bearish—an interesting sign for contrarians because these experts are often wrong. Michael Burke, editor of *Investors Intelligence*, a New Rochelle, N.Y.-based newsletter that tracks 135 investment advisers, reports that currently 34.2% of them are bearish. According to Burke, this is the lowest level of pessimism since the crash.

In December the bearish camp comprised over 55% of Burke's survey group. What happened since then? The market hit a postcrash peak on Feb. 7, which gave the Wilshire index a gain of 7.6% since the start of the year. Now Burke, who puts great faith in his indicator, thinks that stock prices are due for a correction.

Share prices, indeed, lost ground during the last two weeks. In addition to Burke's sentiment indicator, investors also had to worry about rising interest rates. The Dow and S&P 500 declined by 1.4%, while the Amex and Nasdaq stocks lost about half as much.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.7	0.1	–0.1	0.3	0.6	1.5
in last 52 weeks	11.7	11.5	13.5	11.4	14.1	10.8

Stock performance based on six key investor yardsticks[3]

Percent change	Company size		Volatility[4]		P/E multiple		Dividend yield		Growth profile[5]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	0.9	2.5	2.2	–0.2	1.8	2.8	0.4	0.7	2.8	0.6	1.3	2.7
in last 52 weeks	13.6	13.6	12.9	5.2	26.7	13.4	1.2	17.3	12.3	10.9	19.0	0.4

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]Equal weighted indices containing all shares with market capitalizations over $10 million. [4]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [5]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

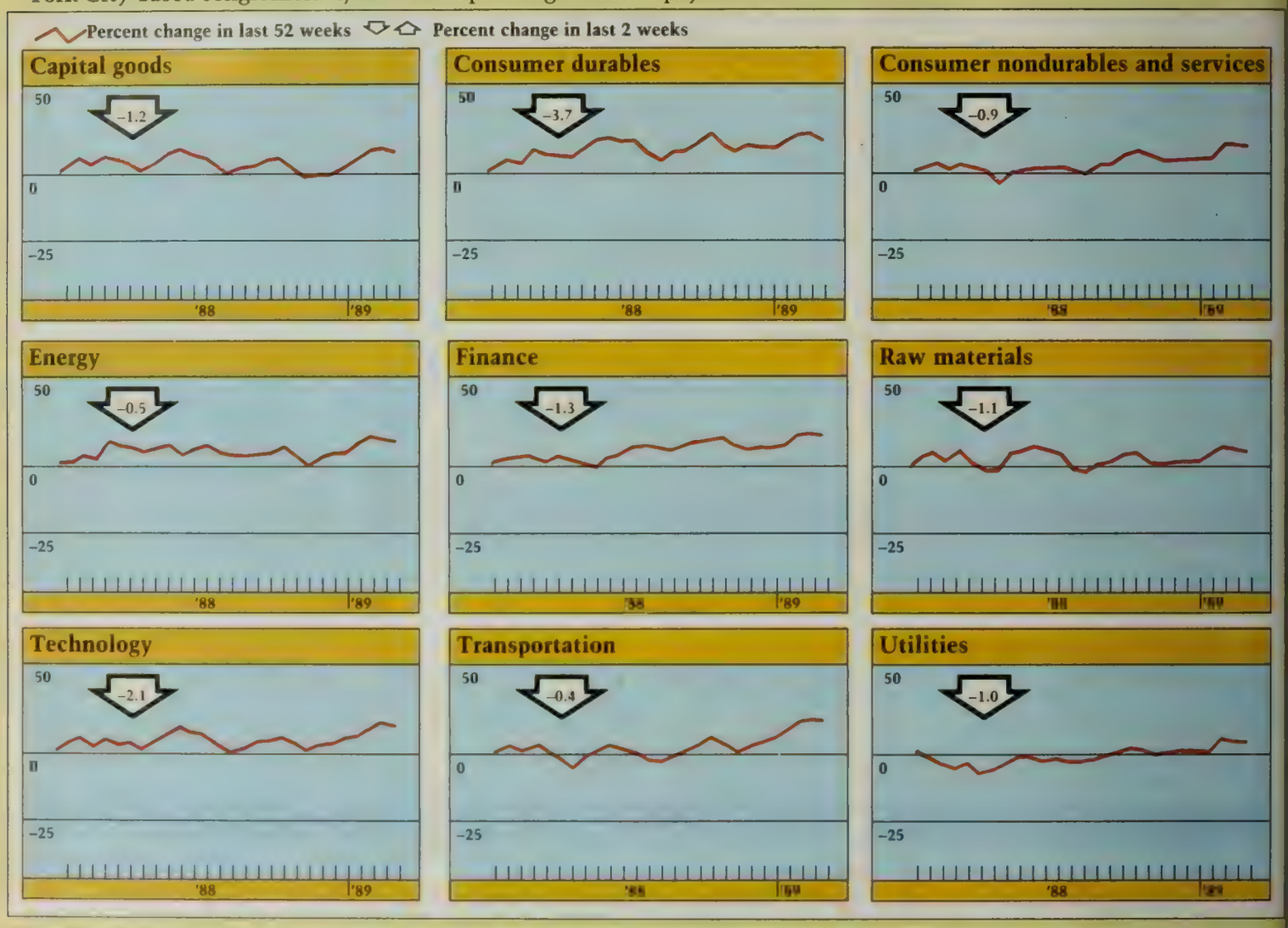
Note: All data for periods ending 2/23/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

There's nothing like a takeover threat to move a stock. Although the capital goods sector declined 1.2% during the last two weeks, one stock in the group, Precision Castparts, rose 28%, to 36½. The Portland, Ore.-based manufacturer of castings for the aerospace industry announced on Feb. 15 that Sequa Corp., a $1.7 billion New York City-based conglomerate, had filed a premerger notification form with the Federal Trade Commission stating its intention to acquire up to 24.99% of Precision.

Despite the drop in the overall averages, Tambrands, Aristech Chemical and Emhart all posted gains of 15% or more. But El Paso Electric declined 18.3% on news that its chief executive had resigned and that future dividend payments are uncertain.



What the Analysts Think

Flying against a headwind. The transportation sector as a whole had some of the biggest cuts in earnings estimates during the last four weeks, but several airline stocks were treated to increases in their 1989 earnings forecasts. Analysts raised their estimates for UAL, Alaska Air and AMR by 4% or more during the past four weeks.

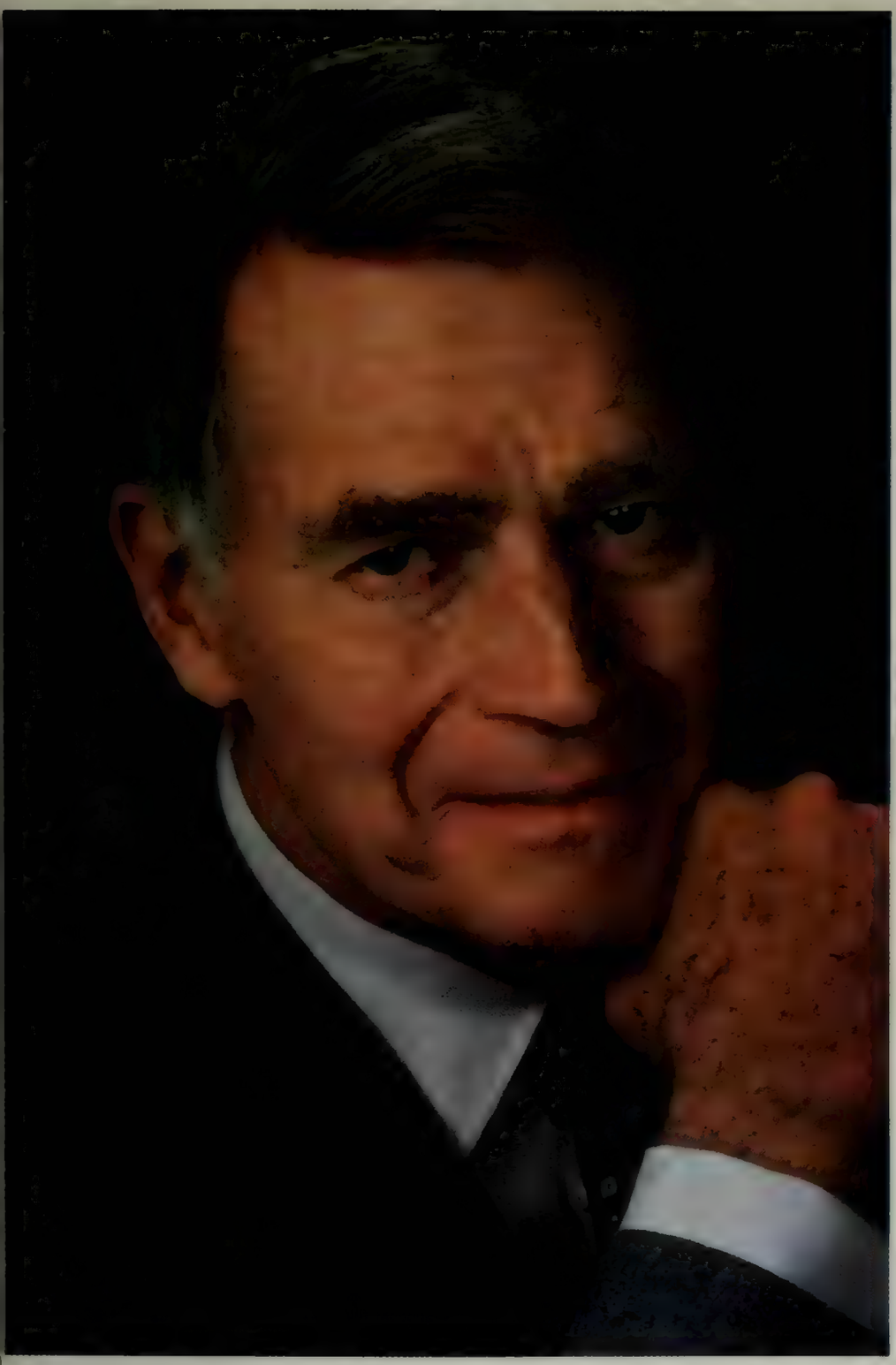
Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.36	12.0
[illegible] estimate	3.96	10.2
[illegible] estimates	4.37	9.4

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Raw materials	$3.54	9.2	0.49%	1.49%
2	Consumer durables	5.05	10.7	0.21	1.99
3	Finance	3.76	7.9	0.16	0.14
4	Energy	3.06	12.0	0.07	0.41
5	Consumer nondurables	2.73	12.9	–0.06	–0.04
6	Utilities	3.08	10.1	–0.15	–0.08
7	Capital goods	3.03	12.8	–0.21	–0.88
8	Transportation	2.83	10.5	–0.23	–0.74
9	Technology	3.22	11.0	–0.48	–0.68

[illegible] weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers [illegible] Lynch, Jones & Ryan, a New York-based brokerage firm.

[illegible] Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.



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AFFILIATED PUBLICATIONS, INC. N

ANNOUNCES FINAL RESULTS

Boston, MA.—February 13, 1989—Affiliated Publications, Inc. announced today its final results for the fourth quarter and the year 1988, including its equity share of the operating results of McCaw Cellular Communications, Inc. (McCaw) of Kirkland, Washington.

Affiliated accounts for its investment in McCaw using the equity method of accounting, under which Affiliated recognizes its equity share of McCaw's book income or loss. McCaw announced its fourth quarter and annual results on February 9, 1989.

As reported on February 2, Affiliated's revenues for the fourth quarter of 1988 were $136,996,000 as compared with $135,600,000 for the same period a year ago. Revenues for the year 1988 were $534,237,000 versus $490,143,000 in 1987.

Affiliated's fourth quarter income from consolidated operations was $14,223,000 or $.21 per share versus $15,629,000 or $.22 per share in 1987. Income from consolidated operations for the year 1988 was $51,886,000 or $.75 per share as compared with $57,520,000 or $.82 per share for the same period a year ago. Income from consolidated operations does not include the impact of charges to earnings from Affiliated's equity investment in McCaw.

As expected, Affiliated's net loss for the fourth quarter and for the year 1988 was significantly affected by its share of McCaw's net loss. Affiliated's net loss for the fourth quarter was $29,495,000 or $.43 per share versus a loss of $3,623,000 or $.05 per share for the same period a year ago.

For the full year 1988, Affiliated's net loss was $80,882,000 or $1.17 per share as compared with net income of $201,152,000 or $2.87 per share in 1987. The 1987 amount included a one-time third quarter gain of $121,750,000 or $1.73 per share, related to the increase in shareholders' equity of McCaw as a result of McCaw's initial public offering. The 1987 amount also included equity in gain on the sale of discontinued operations of McCaw of $39,978,000, or $.57 per share, and equity in an extraordinary credit of McCaw of $17,879,000 or $.26 per share. Recognition of Affiliated's share of McCaw's book income or loss has no effect on Affiliated's cash flow

Affiliated Publications Inc., is the parent company of Globe Newspaper Company, publisher of *The Boston Globe*, and Billboard Publications Inc., a leading publisher of specialty magazines and books for the arts, design and entertainment markets. Affiliated also publishes and retails regional special interest books and travel guides through its [illegible] Press Division.

[illegible] Affiliated [illegible] owns 61,558,000 shares [illegible] the largest cellu- [illegible] items operator in the United States and one [illegible] six paging operators. On January 19, [illegible] announced a restructuring plan under which Affiliated will distribute its Globe Newspaper Compa- [illegible] Inc. subsidiaries to its [illegible] spinoff. Immediately after the spinoff, Affiliated will merge into McCaw. Affiliated shareholders will receive approximately .84 shares of McCaw Class A Common Stock in the merger for each share of Affiliated held. The restructuring is subject to shareholder, Internal Revenue Service and certain other regulatory approvals.

Affiliated Publications, Inc.
Consolidated Statement of Operations

(All amounts in thousands except share and per share amounts)

	Fourth Quarter		Year to Date	
	12/25/88	12/27/87	12/25/88	12/27/87
Operating revenues				
Advertising	$106,792	$106,242	$412,780	$390,779
Circulation	24,125	22,718	95,002	81,990
Other	6,079	6,640	26,455	17,374
	136,996	135,600	534,237	490,143
Operating expenses				
Direct costs of production	60,832	55,862	233,874	200,525
Selling	29,447	29,606	116,619	104,869
General and administrative	15,747	15,142	64,889	57,091
Depreciation and amortization	5,506	5,263	24,178	21,089
	111,532	105,873	439,560	383,574
Operating income	25,464	29,727	94,677	106,569
Other income (expense)				
Interest expense	(2,254)	(2,[illegible]75)	(8,952)	(4,541)
Interest income	262	287	754	2,417
Other, net	122	(1,43[illegible])	(107)	101
	(1,870)	(2,03[illegible])	(8,305)	(2,023)
Income from consolidated operations before income taxes	23,594	27,696	86,372	104,546
Provision for income taxes	9,371	12,067	34,486	47,026
Income from consolidated operations	14,223	15,629	51,886	57,520
Equity in (loss) income of affiliates	(43,718)	(19,252)	(132,768)	85,775
Income from continuing operations	(29,495)	3,623	(80,882)	143,295
Equity in gain on sale of discontinued operations of affiliates				39,978
Income before extraordinary credit	(29,495)	3,623	(80,882)	183,273
Equity in extraordinary credit of affiliate				17,879
Net (loss) income	$(29,495)	$ 3,623	$ (80,882)	$201,152
Per Share Information				
Income from consolidated operations	$ .21	$ .22	$ .75	$ .82
Equity in (loss) income of affiliate	(.64)	(.27)	(1.92)	1.22
Income from continuing operations	(.43)	(.05)	(1.17)	2.04
Equity in gain on sale of discontinued operations				.57
Income before extraordinary credit	(.43)	.05	(1.17)	2.61
Equity in extraordinary credit of affiliate				.26
Net (loss) income	$ (.43)	$ .05	$ (1.17)	$ 2.87
Shares used in per share calculations	69,111,147	69,508,083	69,081,277	70,173,256
Line of Business Information				
Revenues				
Newspaper	$113,750	$116,769	$445,425	$442,683
Specialty publishing	23,246	18,831	88,812	47,460
	$136,996	$135,600	$534,237	$490,143
Operating income				
Newspaper	$ 25,684	$ 28,52[illegible]	$ 92,418	$105,4[illegible]5
Specialty publishing	955	2,290	6,518	5,611
General corporate	(1,175)	(1,084)	(4,259)	[illegible]
	$ 25,464	$ 29,727	$ 94,677	$1[illegible]
Depreciation and amortization				
Newspaper	$ 4,106	$ 3,988	$ 18,657	$ [illegible]
Specialty publishing	1,226	1,104	4,855	
General corporate	174	171	666	
	$ 5,506	$ 5,263	$ 24,178	$ [illegible]

(Contact: Daniel Orr, Vice President, Affiliated Pub[illegible] tions Inc., 135 Morrissey Blvd., Boston, MA 02107. Ph[illegible] (617) 929-3035.)

ASHLAND OIL, INC.

ASHLAND HAS RECORD FIRST QUARTER

ASHLAND, Ky., Jan. 23, 1989—Ashland Oil, [illegible] (NYSE:ASH) said today it had record first-quarter earni[illegible] For the three months ended Dec. 31, 1988, the first qu[illegible] of Ashland's 1989 fiscal year, net income was $96 mil[illegible] equal to $1.72 a share.

These results include an after-tax gain of $18 millio[illegible] 33 cents a share, from the previously announced sa[illegible] Ashland's carbon black operations. During the qua[illegible] Ashland added $18 million, before taxes, to environme[illegible] and litigation reserves. Of this amount $7 millio[illegible] reflected at the corporate level, $5 million is reflecte[illegible] Ashland Petroleum and $6 million is in the engineering [illegible] construction segment.

In the quarter a year ago, Ashland had net income of [illegible] million, or $1.41 a share. This included a gain of [illegible] million, or 71 cents a share from the early adoption [illegible] required change in accounting for income taxes.

Sales and operating revenues were $2.1 billion for [illegible] quarter just ended and $2.0 billion a year ago.

"We're very pleased by these results," said Ash[illegible] Chairman and Chief Executive Officer John R. Hall. [illegible] results from operations, exclusive of the gain from [illegible] carbon black sale, set a new high for first-quarter earni[illegible]

"Operating income was led by record first-quarter pe[illegible] mances from Ashland Petroleum, SuperAmerica and [illegible] land Chemical," Hall added. "Strong refinery margin[illegible] October and November resulted in substantially hi[illegible] earnings from Ashland Petroleum. SuperAmerica had [illegible] outstanding quarter, reflecting strength in both mar[illegible] and volumes.

"Ashland Chemical's operating income was a recor[illegible] the period; even when the gain from the carbon black sa[illegible] excluded. Valvoline and Ashland Exploration improved [illegible] results compared to a year ago. Equity income from our [illegible] investments was nearly even, even though our owner[illegible] position in Ashland Coal, Inc., declined from 65 percen[illegible] 46 percent," he added.

"Engineering and construction had a disappoin[illegible] quarter, reflecting reduced results from Riley Consolid[illegible] and the APAC group of construction companies."

Hall reported progress of Ashland's on-going stock re[illegible] chase program, noting that Ashland repurchased 295 [illegible] shares during the quarter. Since the program began [illegible]

, Ashland has bought in 10.5 million shares at an ıge price of about $28.50 a share.

ılthough the recent rapid increase in crude oil prices :aused refinery margins to decline to marginally profit- levels which is typical for this time of year, we remain ıistic that 1989 will be another good year for Ashland," said, "Our other businesses are doing well, and we :t refinery margins to recover with the onset of the ıg season."

ontact: William Hartl, Director-Financial Communica- , Ashland Oil, Inc., 535 Madison Avenue, New York, NY 2. Phone (212) 421-1250.)

:FLEX INCORPORATED **A**

Teleflex Reports Record 1988 Results

MERICK, PA, Feb. 9—Teleflex Incorporated today an- ced 1988 revenues of $328,233,000, an increase of from the 1987 level of $271,765,600. Net income ased 22% from $19,671,100 in 1987 to $24,008,900 in ı. Earnings per share increased to $2.22 in 1988 ɔared to $1.79 in 1987.

evenues in the fourth quarter increased 23% to 137,000 from $75,755,600 in 1987. Net income was 27,900 or $.65 per share in 1988, as compared to 79,100 or $.51 per share in 1987.

TELEFLEX INCORPORATED

COMPARATIVE SUMMARY OF REVENUES AND EARNINGS

	Year Ended		3 Months Ended	
	Dec. 25, '88	Dec. 27, '87	Dec. 25, '88	Dec. 27, '87
es	$328,223,000	$271,765,600	$93,137,000	$75,755,600
ɔme	24,008,900	19,671,100	7,027,900	5,579,100
s per share	$2.22	$1.79	$.65	$.51
ding	10,700,700	10,627,000		

leflex Incorporated is a company which solves prob- by the development and application of new specialized nologies.

Contact: John H. Remer, Vice Chairman & Chief Admin- tive Officer, or John F. Schoenfelder, Vice President, etary & Treasurer, Teleflex Incorporated, 155 South rick Road, Limerick, PA 19468, Phone (215) 948-5100)

TED TELECOMMUNICATIONS, INC. **N**

ANSAS CITY, MO.—Feb. 16, 1989—United Telecom- ications, Inc. net income for 1988 increased to a record 1.9 million, or $4.95 per share, from a loss of $51.5 on, or 55 cents per share, in 1987, President William T. y announced today.

This has been a year of extraordinary change and tanding progress for United Telecom, a year in which we ed to realize the positive results of our long-term egy," Esrey said. "We expect to realize even greater fits from that strategy in 1989 and beyond."

e said US Sprint's financial performance in the fourth ter capped an exceptional year. Prior to a non-recurring ness restructuring charge, US Sprint had its first ating income and a positive cash flow in the quarter.

srey said United Telecom's fourth quarter earnings of 9.5 million, or $3.70 per share, reflected two major non- rring items: (1) an after-tax gain of $368.8 million, or 1 per share, from discontinued operations resulting arily from the sale of the company's cellular and paging ations, and (2) an after-tax loss of $64 million, or 63 s per share, representing United Telecom's share of a 5 million US Sprint non-cash business restructuring ge.

1988, United Telecom had operating income of $228.4 on on consolidated net revenues of $6.5 billion. Con- lated net revenues of $2.9 billion in 1987 did not ıde the results of US Sprint, which had revenues of $2.7 ɔn a year ago. Income from continuing operations was 1.8 million or $1.36 per share in 1988, compared to a of $33.5 million or 37 cents per share in 1987. uding the nonrecurring items, earnings per share from inuing operations for 1988 were $1.99.

e said US Sprint's results reflected significant quarter ıarter operating gains, particularly in the second half of 3. Reported on a consolidated basis, US Sprint had ating losses of $125 million and $98 million, respec- y, in the first and second quarters of 1988. The ating loss narrowed to $5 million in the third quarter, prior to the business restructuring charge, US Sprint operating income of $14 million in the fourth quarter.

Contact: Don Forsythe, United Telecommunications, Inc., Box 11315, Plaza Station, Kansas City, MO. 64112. ıe: (913) 676-3343.)

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Peter Cundill searches the world for companies trading at less than net working capital. He has the discipline to stay in Treasurys when bargains can't be found.

Better dead than alive

By Jonathan Clements

HE'D MAKE A LOVELY corpse," said Mrs. Gamp in Dickens' *Martin Chuzzlewit*, of a live character.

Benjamin Graham, one of the great investment theorists of this century (he died in 1976), had the Gamp mentality. Writing in FORBES in June 1932, he noted that a third of all industrial stocks were quoted in the market for less than their liquidating value. "In the best judgment of Wall Street, these businesses are worth more dead than alive," he said. For Graham, the value of a corporate corpse could be found by subtracting from its working capital (current assets less current liabilities) all long-term liabilities, including debt and preferred. If this "net working capital" was greater than the market value, Graham reckoned the stock was a good buy.

John Cole/Impact

Turns Peter Cundill ...ing penalized for waiting."

Problem is, today anybody with a computer and a decent database can root out these bargains, so there aren't many. Among the 1,700 stocks it follows, *Value Line* turns up only 17 trading at less then net working capital per share, of which 9 are currently profitable.

Which all helps to explain why Canadian value investor Peter Cundill is, as this is written, 39% in cash and 7% in bankrupt bonds. "We do liquidation analysis and liquidation analysis only," says Cundill, who manages the Vancouver-based Cundill Value Fund, with C$322 million in assets ($269 million U.S.). Over the last decade, the fund has returned an average 19.6% a year (in U.S. dollars), versus 16.3% for the S&P 500, making it one of the top-performing Canadian mutual funds. Though the SEC forbids Cundill Value to sell its shares to U.S. residents, there is a way around the regulations *(see box, opposite)*.

When Cundill took over the fund in 1975, net working capital bargains were plentiful. Within a year, as North American markets started to rise, he found himself scanning foreign markets to find stocks that met his rigid criteria. "Every November, when it got to be rainy in Vancouver, I would go to the country that had the worst stock market over the first 11 months," says Cundill. "For my sins, that first year I ended up in Sweden, which is even darker and bleaker than Vancouver in late November."

Globe-trotting has since become a way of life for Cundill. He spends four months a year in London, which he calls home, and divides the other eight months among Vancouver, Hong Kong, New York City and San Francisco, where his wife can often be found. "She said, 'I'd rather be lonely in California than lonely in London,' " says Cundill, a charming, athletic-looking 50-year-old who last October ran his twelfth marathon, Washington State's Three Rivers, in 3 hours 15 minutes.

To ferret out stocks that others

have not discovered, Cundill has built up a network of like-minded investors that includes Alan Kahn of New York's Kahn Brothers, Donald Kennedy of San Francisco's D.S. Kennedy, and Allan Murray, trader for Jardine Fleming in Hong Kong. Cundill ends up with a lot of small U.S. companies. He owns 3.5% of Evans Inc., a retailer of fur coats that suspended its dividend in late 1987. Evans' stock, which traded at 18 as recently as 1987, is now slumped at 5, which is just below the company's net working capital per share of $5.04.

Another holding is a 5% stake in New York City's Fidata Corp., which until 1986 provided automated record keeping for the financial services industry. But Fidata became embroiled in litigation following the bankruptcy of two companies it provided clearing services for. Fidata has sold most of its assets, leaving it with a $54 million portfolio of short-term securities and a lot of litigation. Fidata, which trades at 6⅞ and has net working capital per share of $11.62, recently agreed to merge with a small pharmaceutical company. For each share of Fidata, investors will get one share of the newly merged entity, which should be worth at least $5, plus $5 in preferred and cash.

Cundill is not beyond relaxing the formula when faced with real estate or marketable securities that are on a balance sheet for far less than their true worth. Trico Products, for instance, trades at 57 and had net working capital per share of $5 as of September 1988. That's after adding in $7 a share in LIFO inventory reserves, a LIFO reserve being the spread between inventory valued at artificially low historic costs and the same inventory valued at recent costs.

So what's good about Trico? The Buffalo-based maker of windshield wipers has holdings of Ford and General Motors stock that are on the books at $5 per Trico share but are actually worth $27.50 per share. In addition, Trico has industrial real estate in Buffalo, Texas, Mexico, the U.K. and Australia. All told, Cundill reckons the company's liquidation value is more than its stock price. "The real value is if they can turn the windshield wiper business around," he says. Trico management has refused to see Cundill, who owns 8% of the company. "They said it wouldn't be fair to all the other analysts they refuse to see."

Among Cundill's British holdings is Mountleigh Group Plc., a London real estate developer and Spanish department store owner. Mountleigh Group, which has net working capital per share of $2.11 at recent exchange rates, trades at $2.87 on the London Stock Exchange.

Cundill recently bought 75,000 shares of Adelaide Steamship Co., an Australian investment company with interests in real estate, timber, port services and warehousing. Adelaide, which trades at $4.87, has net working capital of $4.18.

With working capital bargains so scarce, it isn't stocks that currently have Cundill excited. Says he, "One of the great values right now is treasury bills, particularly in Canada where you can now get over 11%." With Canadian inflation running at 4%, that's a 7% real return. Notes Cundill, "Nobody's getting penalized for waiting." ■

Voulez-vous visiter Québec?

The good news is that some Canadian mutual funds have excellent records *(see table)*. The bad news is that these funds are barred by U.S. securities law from selling shares to U.S. residents. They are not even supposed to accept unsolicited investments from south of the border.

Fund	Assets ($mil)	Expenses per $100	Maximum sales charge*	—Total return— ten-year annualized	1988	Telephone number
Cundill Value	$269	$1.82	8.75%	19.6%	30.0%	(604) 685-4231
AGF Japan	70	1.80	9.00	19.6	10.5	(416) 367-1900
AGF Special	126	1.82	9.00	19.5	18.8	(416) 367-1900
Mackenzie Equity	65	2.00	9.00	17.7	27.1	(416) 922-5322
Investors Japanese Growth	162	1.33	8.50	17.6	13.6	(204) 943-0361

All figures in U.S. dollars. Total return includes capital gains and income dividends. Returns are net of annual expenses, but before sales charges, and reflect experience of U.S. dollar investors. *Includes back-end load where applicable. *Source: Financial Post Information Service*

End of story? Not quite. A U.S. investor can legally buy a Canadian mutual fund as long as he consummates the deal while still on Canadian soil. All he need do is list his hotel as his home address. Upon returning to the U.S., it is a simple matter of informing the fund that there has been a change of address.

Thereafter, the fund would withhold tax on dividends (but not capital gains) at the 15% rate that's laid down by the Canadian-U.S. income tax treaty. According to Grant Thornton partner Edward Farrell, U.S. holders of a Canadian fund should declare dividends and capital gains on form 1040, and use form 1116 to claim the tax withheld in Canada as a dollar-for-dollar credit against U.S. taxes. Once back in the U.S., the law says investors cannot make additional share purchases, though they can reinvest dividends and capital gains.

One of the top-performing funds of all time, Templeton Growth, started as a Canadian fund. It was open to investors from both sides of the border from 1974 until 1986, when it was split into two funds, one Canadian and one U.S. The fund split because U.S. investors could not get a credit for taxes incurred by the Canadian fund on foreign dividends and on all interest (though U.S. investors could still claim a credit for the 15% withholding tax deducted from their dividend checks by the Canadian authorities). That loss of tax credits does not in general afflict U.S. buyers of Canadian funds: Templeton's problems had to do with the fact that the fund was organized as a corporation rather than as a unit trust.

Though some Canadian funds have impressive records, all but one of the top ten performers come with a load, and the annual expense ratios are generally above the 1.5% average for U.S. stock funds. Potential investors should also note the foreign exchange costs, which at Deak International would run 1% on a $100,000 round-trip transaction.

Investing in foreign funds may soon get easier. Fund industry representatives from Australia, Canada, the EEC, Japan and the U.S. are now trying to develop a prospectus that would be acceptable to securities administrators in all five jurisdictions.—J.C.

No surprise: Companies that went private a few years back are going public again. Here, tips on spotting potential winners.

Born-again stocks

Brian Ajhar

By Christopher Palmeri

COMPANIES THAT WERE acquired via leveraged buyouts are now seeing the light of public ownership again. That's because converting LBO debt into public equity is just one more opportunity for investment bankers, private investors and management to make money on the deal. But the dealmakers have been leaving a little money on the table for individual investors, too.

We studied 70 former leveraged buyout firms that made $20 million-plus new public offerings in the period from 1980 to May 1988. From their initial offering price to the present, these 70 stocks have an average relative performance of 113. For reference, a stock that posted the same gain as the S&P 500 would have a relative performance of 100.* In short, the recycled LBOs did significantly better than the market. The 70 stocks also turned in a respectable 17% average annual return.

Which stocks did the best? The winners' list is peppered with brand names like Harley-Davidson, A&W Root Beer, Budget Rent a Car, Formica, Tiffany and Topps bubblegum cards. Brand names have had a good run recently on Wall Street—think of the recent takeovers of packaged goods companies—and that applies whether they belong to firms that have been public for decades or to companies that were recently listed.

Takeovers increased the value of several of the best-performing LBOs-gone-public. Four of the top 15 issues were reacquired, and 2 more, Formica and Budget Rent a Car, appear to be headed in the same direction. As a whole, 19% of the 70 stocks in our study were reacquired, a percentage roughly double that of all initial public offerings over the same period.

We also found that LBOs done by merchant banking firms or outside investors generally did better after going public than did purely management-led buyouts. One conspicuous exception to this rule is Kohlberg Kravis Roberts, the buyout pioneer that juggled the $25 billion purchase of RJR Nabisco. In the ten deals we monitored, KKR had an average relative performance of only 88. Child World and

**More precisely: Take the sum that a $100 investment in the stock would have grown to. Divide it by the amount that $1 invested in the S&P would have grown to over the same period, not counting dividends. The resulting quotient is the relative performance.*

L.B. Foster, on the other hand, were the firm's biggest losers.

What fundamentals are associated with good performance of an LBO going public? "Ignore price/earnings and price/book ratios," says McKinley Allsopp analyst Richard Haydon. "The most important thing is the level and stability of operating income," by which he means earnings before taxes, interest and depreciation. And, he says, "You must go beyond what is in the prospectus and make estimates of that cash flow."

First Chicago Venture Capital President John Canning, who has put over $600 million of the bank's money into leveraged buyouts, says he considers most industrial companies a value at 7½ times operating income, although communications companies often command multiples of 10 to 15. Canning includes debt assumed in the price of a company.

Take Outlet Communications, a Providence-based radio and TV station operator that William Simon's Wesray Capital bought from the Rockefeller Group in 1986. Outlet went public in January 1987 at 11¼ and now trades at 26, even though it has a negative book value and no earnings.

What makes Outlet valuable? The real cost of acquiring any firm is the sum of its market price and its total debt. Currently at 26, and with $27 a share in long-term debt, Outlet has an acquisition cost of about $53 a share. What you get is a property with 1988 operating income of $4.88 a share. The market, then, is pricing Outlet at 11 times operating income. ■

Gone today, here tomorrow

Companies that have gone private in leveraged buyouts are popping back up on Wall Street's ticker machines. In the past eight years more than 70 former LBOs have been taken public with stock offerings valued at $20 million or more. The best and the worst of the lot are listed below. Companies with strong, identifiable brand names seem to have the best chance of performing well after going public.

Company/industry	Pre-LBO owner	Buyout group	Offer date	Offer price	Recent price	% change	Relative to S&P
Winners							
Georgia Gulf/chemicals	Georgia-Pacific	management	Dec 86	9¾	42⅞	340	367
Specialty Equipment/food service equip*	Beatrice	Gibbons Green van Amerongen	July 87	12	33	175	318
Anitec Image Technology/photo process*	GAF	outside investors	May 85	7⅜	25½	248	290
Vista Chemical/chemicals	Conoco	Gordon Cain	Dec 86	17	56⅛	230	276
Topps/bubble gum cards	firm was public	Forstmann Little	May 87	13	36⅝	182	266
Outlet Comms/radio, TV stations	Rockefeller Group	Wesray Capital	Jan 87	11¼	26¼	133	211
Budget Rent a Car/car rental	Transamerica	Gibbons Green van Amerongen	May 87	14	29½	111	200
Wellman/polyester fiber	firm was private	management	June 87	20½	41⅜	102	199
Formica/laminates	Amer Cyanamid	management	June 87	11¾	22¼	89	196
Harley-Davidson/motorcycles	AMF	management	July 86	11	26⅜	140	195
Tiffany/retailing	Avon Products	management	May 87	23	44⅛	92	191
A&W Brands/soft drinks	United Brands	Alfred Taubman	May 87	11	18	64	162
Western Auto Supply/auto parts*	Beneficial Corp	Wesray Capital	Jan 87	13	19	46	151
Foodmaker/fast-food stores*	Ralston Purina	Gibbons Green van Amerongen	Feb 87	13½	19⅜	44	147
Ladd Furniture/furniture	Sperry & Hutchsn	management	Aug 83	5⅜	14	160	141
Losers							
MAI Basic Four/computers	Mgmt Assistance	Bennett LeBow	June 86	15	10½	–30	58
Leslie Fay/women's apparel	firm was public	Odyssey Partners	Aug 86	18	12¼	–32	54
Child World/toy stores	Cole National	Kohlberg Kravis Roberts	Aug 85	16¾	13¾	–18	52
Allstar Inns/hotels	privately held	outside investors	Mar 87	12½	6¼	–50	52
Charter Power System/batteries	Allied Corp	management	Feb 87	11	5⅝	–49	48
Gtech/lottery systems	Datatrol	Bass Brothers Enterprises	July 83	13¼	10½	–21	45
Reliance Group/insurance	firm was public	Saul Steinberg	Sep 86	10	5¾	–43	45
Communications Trans/telephone lines	Times Mirror	management	Oct 87	12	4¾	–60	42
Pannill Knitting/sportswear	firm was private	management	June 86	21	9⅝	–54	37
Cato/retailing	firm was public	management	Apr 87	12	4⅜	–64	35
Lincoln Foodservice/food service	Alcoa	Wesray Capital	June 86	15½	6⅜	–59	33
Chartwell Group/lamps	firm was private	management	Mar 86	14	4½	–68	25
Healthcare Int/psychiatric hosp	firm was private	management	Oct 85	9½	3	–68	20
LB Foster/pipes, tubing	firm was public	Kohlberg Kravis Roberts	June 81	17	5⅝	–67	15
Ramsay HealthCare/psychiatric hosp	Amer Medical Intl	management	Aug 85	12	2⅛	–82	11

*Firm was reacquired.

Sources: Securities Data Corp.; Forbes.

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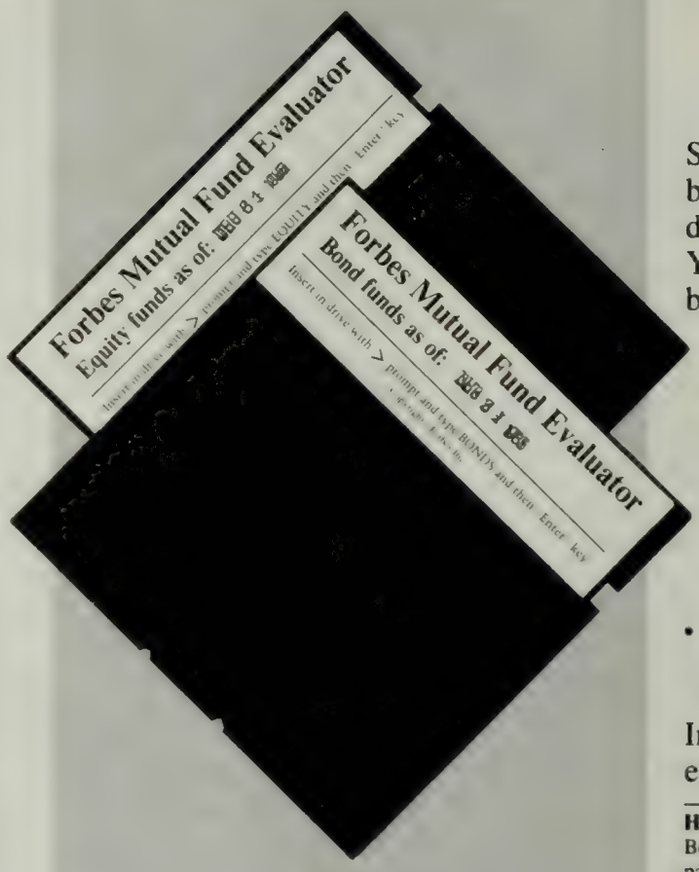

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Should you go into municipal bonds to avoid the new 15% Medicare surtax? Probably not, unless you should have been in munis to begin with.

MEDICARE TAX

By Ben Weberman

To judge by the letters that come in from subscribers, a lot of bond salesmen are out there pitching municipals as a way of avoiding the new Medicare surtax. But the case for munis on those grounds is weak. Look closely at the numbers before you buy the argument.

The surtax, which runs as high as $1,600 a year for a couple, is hardly heavy enough to justify a radical change in investing philosophy. In effect, the 15% supplement adds about 4 percentage points to the marginal tax rate for someone in the 28% bracket. How serious is another 4% tax on your return from a bond? Not too serious. On a taxable 9% Treasury it docks less than 0.4% from your yield. Probably not enough, in short, to make a critical difference in whether the Treasury is a better deal than a municipal.

The surtax arrived via the Medicare Catastrophic Coverage Act of 1988, which increased the premium by an extra $4 a month for catastrophic-illness coverage. According to the American Association of Retired Persons, about 40% of Medicare enrollees who pay federal income taxes will be affected by the surtax, which is 15% of the regular income tax bill, up to a maximum surtax of $800 per person. The ceiling is reached when an individual's tax passes $5,350 or a couple filing jointly has tax of $10,650 or more.

Remember, the supplement is based on tax, not on taxable income. According to Arthur Andersen, an individual must have taxable income in 1989, after all deductions, of about $27,700 to pay $5,350 in taxes. A couple—both enrolled in Medicare—would have to have taxable income of $52,400 to escape the reach of the surtax. The surtax goes into effect for the 1989 tax year, with tax due in April of 1990.

There is, to be sure, good reason for certain investors to buy municipal bonds. If you're in the 28% or 33% bracket and are buying long-term bonds, you will get a better yield on a high-grade muni than on a Treasury. The long Treasurys are paying 9.2%, or 6.6% after federal tax. Good-quality long munis, by contrast, pay 7.5% or better.

How does the surtax change the picture? Slightly in favor of the muni. The surtax turns the 28% bracket into 32.2%. It doesn't do anything to people in the 33% bracket, since that bracket begins after the Medicare surtax leaves off. A couple will have to have taxable income above $74,850 in 1989 to be in 33% territory. But their surtax obligation is over after they've crossed the $52,400 mark.

How about investors who are afraid of rising interest rates and therefore prefer short-term bonds? In most cases they're better off in Treasurys, whether they are in the 28%, 32.2% or 33% brackets. The three-year Treasury, for example, is paying over 9%—even better than the long Treasury—while three-year muni paper is in the 6.4% area.

For the longer maturities the advantage to tax-exempts is still there, but smaller than it once was. George Friedlander, managing director of municipal research at Smith Barney, notes that yields on 10-year, 20-year and 30-year tax-frees are low relative to yields on similar maturity Treasurys—lower, recently, than since early 1987. Supplies of munis are curtailed and demand is high. But even at these levels, municipals are attractive in terms of their current aftertax yield.

One caution is in order, however. If the yields on munis, relative to Treasurys, revert to their historical norms, then the market value of those munis will suffer (again, relative to Treasurys). What we have here is the inescapable fact that a rise in yield creates a fall in market value. In short, don't buy munis if you think they will once again become as plentiful (in relation to demand) as they once were.

State and local bonds that carry a full faith and credit obligation pay 7% for the 10-year maturity. That compares with 9.3% on 10-year Treasurys, equal to an aftertax return of 6.7% for anyone in a 28% bracket or 6.2% for a 33% taxpayer.

At the 20-year maturity range, the general market insured tax-exempt pays 7.7%, while the Treasury carries a yield about the same as on a 10-year. This is even more advantageous for the municipal bond investor. But it's also riskier for the muni buyer. If rates on munis do rise a bit relative to Treasurys, the market value loss will be the worst for the longest bonds.

Friedlander says that the benefits of tax-frees are even more apparent for investors in high local tax states, such as New York and California. Historically, this benefit has caused bonds of such states to sell at yields substantially less than those on general market names. Recently, because of supply increases, bonds from high-tax states have been available at rates not much lower than those elsewhere. Indeed, 20-year New York issues now pay the same as 20-year bonds of other states.

In short, munis may or may not be good for you, but whether they are depends more on what maturities you are looking at than on whether you are affected by the Medicare surtax. ■

Ben Weberman is a contributing editor of FORBES *magazine.*

The crashes of 1929 and 1987 were very different and the result has been diametrically different market behavior.

A TALE OF TWO CRASHES

By David Dreman

It took the market 25 years to recover from the Great Crash of Oct. 29, 1929, when it dropped an unprecedented 12% in a single day. Yet it took only 15 months to recover from the 22% crash of Oct. 19, 1987. "Why such an enormous difference in the time of recovery," many investors ask, "particularly since the 1987 crash was 85% worse in percentage terms and exponentially worse in actual dollars lost?"

The question really signals widespread doubt and skepticism about the strong market rebound since the debacle. By early February, the S&P 500 had advanced to within 10% of its 1987 high and the Dow Jones industrial average had recovered 34% from its October 1987 low, but most experts think it just shouldn't happen this way. Despite that, some of the most successful market letter writers predict an imminent major downturn, many money managers currently hold extraordinarily large amounts of cash and John Q. Public frantically moves his money to the sidelines. It's as though the remarkable comeback had never taken place and stocks were still tottering at their lows.

Today's investor behavior really is not baffling to anyone who has studied previous crashes. History shows that the majority of investors are shell-shocked after a traumatic event, with their memories locked into the debacle for years afterward.

Still, there's a small minority, including myself, who since early 1988 have been recommending being fully invested in equities. Just being a contrarian? Heck no. The crashes of 1929 and 1987 were enormously different, and 1987's crash will continue to result in diametrically different market behavior.

In 1929 the economy and corporate earning power were disintegrating in the face of the rapidly approaching Great Depression. In 1987 fundamentals were almost exactly the opposite. True, stocks frolicked in a frothy market that year, advancing far ahead of earnings growth. Two years ago the P/Es of both the Dow and the S&P 500 were over 20. This has happened only three times in the past—in 1929, 1962 and when the market dropped 25% in two months in 1973, which was followed by the worst crash up to that time of the postwar period. So when the averages rose to as high as 23 times earnings in the summer of 1987, there was little question, as I warned readers (FORBES, *Sept. 21, 1987*), that danger signals were flashing all over the place.

But unlike 1929, the fundamentals in 1987-88 were the strongest in decades. Earnings for the S&P 500 in the last two years have risen almost 60%, one of the greatest surges on record. Too, stock prices are currently down more than 10% from their highs. The combination of lower stock prices and sharply rising earnings has pushed price/earnings ratios down dramatically, from over 22 times back at the peak in 1987 to about 11 times today. Thus, by this important yardstick, the price of stocks has been almost halved in the last 15 months, in spite of the market's dramatic recovery. Add the fact that there is no sign that the economy is faltering, which should result in another 8% to 10% earnings gain this year, and the market's P/E drops even further.

Should you then put all of your chips in the market today? No. In spite of the tremendous strides the market has made, the trauma of the crash is still not behind us. The market continues to be extremely jittery. Even though the S&P 500 recovered a healthy 16.4% last year, it was down 5% or more in each of the last three quarters before coming back and moving to higher ground. It is precisely in this nervous market environment that the value investor has a real edge because he or she can snap up bargains in excellent companies when they are knocked down sharply on temporarily disappointing news.

So what should you do here? My advice is to fix the proportion of stocks and bonds you want to hold and stick with it. Don't try to shift with every change in the market tide or you'll get whipsawed. The portfolio mix I recommend is 55% equities and 45% bonds.

Here are several stocks that look attractive for the value player today.

Chrysler (26), the nation's third-largest auto producer, seems poised for a better year in 1989. Chrysler could earn $5.50-plus per share in 1989, even with a slight slowdown in new car sales. The stock trades at a P/E of 5.7 and yields 3.7%.

Hanson Plc. (15) is a conglomerate with an excellent record of taking over undervalued companies and increasing income rapidly. Over the past five years both earnings and dividends have increased at a rate of 35%. Earnings should be up 15% in the 1989 fiscal year (ending Sept. 30). The stock trades at a P/E of 10 and yields 3.6%.

May Department Stores (35) is one of the nation's major department store chains. The company should show higher earnings in 1989 after digesting the Filene's and Foley's divisions of Federated, purchased last year. The stock trades at a P/E of 10 and yields 3.6%. ■

[illegible] is managing director of [illegible] Value Management Inc., investment counsel, New York and author of [illegible] Contrarian Investment Strategy

With a little bit of luck, the Federal Reserve may be able to prolong the expansion through 1990. Possibly beyond.

CURVES IN THE RIGHT PLACES?

By Ann C. Brown

Alan Greenspan is sneaky. He sneaks up the rate on federal funds by innocent-looking sixteenths, which have added up to a rate rise of 2% in the past seven months.

Alan Greenspan is shifty. He has managed to shift the yield curve so that, at the moment, short-term rates are higher than long-term rates. And, interestingly enough, long-term rates have actually declined one-half percent from where they were before the election.

Alan Greenspan is also very, very smart. Not only did he masterfully maneuver the money markets in the wake of the 1987 crash, he is steering our leaky financial ship through the shoals of a possible banking system collapse and the rocks of a long-anticipated recession. He knows that the best way he can help keep the economic expansion going while holding inflation in check is by concentrating on stabilizing the long-term interest rates through the responsive manipulation of short-term rates. He is aware that, from time to time, this may result in inverted yield curves, which may alarm some old-school economists. But to Mr. Greenspan these inversions are simply another means to achieve his end—a monetary policy that will give the U.S. economy maximum growth with minimal inflation.

Stock market investors can expect the Federal Reserve to continue the inverted yield curve until it sees some signs that this gradual tightening of ready cash is having the desired effect of decreasing the rate of increase in the GNP. However, the Fed still wishes to promote growth in the economy for many reasons, not the least of which is that the budget and trade deficits (which look as if they are stuck for several years around their current constant dollar amounts) will lose relative importance as the GNP continues to increase.

In the past, an inverted yield curve all but guaranteed the early onset of a recession. These days, this need not be the case because of the way in which short-term rates are raised together with the changed (and changing) nature of the debt markets. For example, allowing the rate of federal funds to rise/fall is estimated to have 10 to 20 times more direct impact on the economy than raising/lowering the discount rate—and is 100 times less scary. Furthermore, since the Fed funds rate may be increased or decreased by the smallest of amounts over time, it helps to minimize the dislocation of both borrowers and lenders and so contribute to a more smoothly operating credit market.

As a result of the changes in the income tax laws and the advent of such phenomena as junk bond buyouts, more and more individuals and corporations are short-term debtors—or have debt obligations whose interest rates are pegged to short-term rates (like adjustable rate mortgages tied to the prime rate). This means that the Federal Reserve through its System Open Market Account traders is in a stronger position than ever before to influence daily economic decisions and actions by the use of repurchase agreements, reverse repos and other fine-tuning instruments.

I think that the forecasters who are presently predicting an economic downturn in the second half of this year have failed to recognize this new power of the Federal Reserve. To be sure, it can only do so much through monetary policy and the implementation thereof. Poor fiscal management, oil shortages, droughts and floods and other injurious acts of man and his Maker can undo all the Fed's best-laid plans. However, assuming Congress, OPEC and Nature do no worse in the immediate future than they have done in the recent past, the Federal Reserve may be able to act in such a way as to prolong the expansion through 1990. Possibly beyond.

Should this be the case, then there are numerous good buys in the stock market—particularly among those cyclical issues whose earnings estimates for 1989 and 1990 are too low because analysts have calculated them on the assumption of a recession. One industry that could do well if a downturn fails to materialize over the next several quarters is paper/forest products. Particularly attractive are those companies that supply large quantities of containerboard. *Weyerhaeuser* (25), for one, could earn around $3.10 per share or more this year for a total return potential of 17%-plus.

Two other eye-catching companies in the paper and box business are *Jefferson Smurfit Corp.* (o-t-c, 31) and *Longview Fibre* (63). The former has an aggressive management with a history of successful dealmaking. The latter has been rumored to be a takeover candidate.

Other companies in other industries whose earnings could surprise the experts if the business environment proves to be recessionless near term are *General Electric* (45), *Ford* (51), *Reynolds Metals* (56) and *Conrail* (35). With the exception of GE, all sell at single-digit multiples, which removes some of the risk of a stock price decline should the economy take an unexpected turn for the worse. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

Ignore those trendy economists now telling you that deficits don't matter.

WAITING FOR THE WHISTLE TO BLOW

By Ashby Bladen

The federal budget deficit debate looks more like World War I every day. The hostilities go on year after year, but neither side moves far from its entrenched position. President Bush made it clear at his first press conference that he is, if anything, even more committed to holding the line against increased taxes than was Mr. Reagan, and Congress remains adamantly opposed to cutting nondefense spending. Only Mr. Gorbachev seems able to maneuver.

The world suddenly looks a more hopeful place because Gorbachev apparently realizes that the Soviet Union cannot both spend so much on the military and provide a tolerable standard of living for its people. If future events give us confidence that he is likely to hold on to his job, then we also may be able to cut down on spending for weapons that it would be suicidal to use. But, even so, big government deficits look like a permanent feature of the American scene.

So, should we just relax and enjoy them, as the trendy, with-it economists are increasingly suggesting? They have long pointed out that the Japanese government runs a proportionately bigger deficit than ours does, and look at how well its people are doing. They are right to the extent that if the U.S. government were alone in living beyond its means while the rest of the country was aggressively saving and investing, the budget deficit would not be much of a problem.

But that is not the case. The Japanese still save around 20% of their incomes while we now save less than 5% of ours. So they can afford big government deficits and rising military spending and still go on investing to make their economy more productive, while we cannot. The budget deficit is just one of the many ways in which we Americans are trying to spend more than we are earning by our productive efforts.

Most modern economists see economics as a science of predicting and controlling human behavior. They believe that it can be an exact science like the physical sciences, in which the same causes always have the same effects. So they resolutely ignore all the human responses that don't fit in with the model of perfect predictability and control. They are aghast at the suggestion that their policy recommendations can have unforeseen and undesired consequences.

Our present troubles flow directly from the inflation unleashed by the financial policies of the Kennedy Administration, which turned us from a nation of savers and investors into one of borrowers and spenders in our private as well as our public affairs, both at home and abroad. It never occurred to Walter Heller, chairman of Kennedy's Council of Economic Advisers, that his policy of banishing recessions with easy monetary and fiscal policies would turn the American people into a nation of irresponsible and overindebted inflation-hedgers. He did not foresee that the new economics would cause us to decide that the risk of financial trouble had been lessened while the risk of inflation had increased. So the thing to do was borrow as much as possible in order to buy business equities and real estate as inflation hedges. The unforeseen, and certainly unintended, result was that both inflation and debts rose dramatically.

Because the economists' sovereign remedy for all our troubles, including those caused by excessive debts, is more borrowing and spending, they assume that debt can be created in unlimited amounts. They do not realize that creditors will lend more only as long as they are confident that their debtors can pay them back. And they can't admit that since our politicians began to take their advice nearly 30 years ago, the U.S. no longer deserves the confidence that had made it the Free World's financial leader.

The federal deficit is the logical place to start restoring that confidence because it is the least difficult of our many deficits to fix. If our politicians continue to bungle the job, my guess is the final whistle probably will be blown by the London-based *Economist* magazine, which for many years has been our most loyal supporter in Europe. Its Feb. 18 editorial concludes that "the markets are sending a signal to Washington. It is impossible for America's economy to keep growing at 3% a year, and for its trade deficit to shrink, and for the dollar to stay stable, and for inflation to be tamed—unless the budget deficit is cut. If American politicians do not will the political means, they won't enjoy the economic ends."

From now on the level of interest rates in the U.S. will be determined more by the confidence of our foreign creditors than by the policies of the Fed. Unless our politicians maintain it by cutting the deficit and by signaling to the rest of us that we can't count on being bailed out of our own financial excesses, rates will continue to rise to new peaks. So if you intend to go on playing credit-driven games like leveraged buyouts until the last possible moment, I urge you to get the *Economist* and read it religiously. ■

Bladen is a financial consultant and How to Cope with the Develop- Crisis

Charles Allmon, a long-term top performer, has lagged the market recently. How significant is this?

THE LONG AND SHORT OF IT

By Mark Hulbert

When is it better to focus on the shorter term rather than the longer term? Since we constantly are told that taking the longer view is a good thing, this question is not very often asked. But it should be, especially when an adviser's long-term record diverges dramatically from his performance over the last several years.

Currently there is one newsletter among those monitored by my *Hulbert Financial Digest* for which this question is particularly appropriate: Charles Allmon's *Growth Stock Outlook*. Its long-term track record is impressive. For performance since mid-1980 it ranks in fourth place among all those monitored, with a gain of 293%, and is one of the select few that have beaten the S&P 500's total return of 251%. On a risk-adjusted basis, furthermore, Allmon's newsletter has done even better, ranking first.

But if we focus on just the last five years, the picture painted by the HFD's data is less rosy. Compared with the S&P 500's 103% rise, Allmon's portfolio has gained 59%. While on a risk-adjusted basis his rank over the past five years is higher, it is not above the market itself.

This below-market, near-term performance can be traced to Allmon's premature exit from the stock market in early 1986, when he began to build up his current 80% cash position. Though he looked good during 1987's October massacre, he has missed out on more gains cumulatively than he saved by sidestepping the crash. He was mostly out of stocks during the blow-off stage of the bull market during 1986 and 1987, and did not participate in stocks' strong post-crash recovery.

Allmon nevertheless stubbornly adheres to his bearishness. He expects an eventual bear market bottom as low as 1000. His refusal to jump back into this market undoubtedly can be traced to his memories of the 1973-74 bear market, during which he was bullish. Then, both his recommended portfolios and his newsletter business suffered terribly. But he did survive, which many other newsletters did not. In fact, his is one of the few around today that have been published since at least the early 1970s.

Having heard Allmon speak at investment seminars, I also know that he is extremely competitive, regularly insisting that most of his fellow newsletter editors aren't worth listening to. He tells investors that they should ignore any newsletter whose editor has less than a ten-year track record. Of course, this handily eliminates almost all of his competition.

The fact that Allmon's long-term track record is so much better than his shorter-term performance, however, suggests that another motivation may also be at work. How valid is Allmon's insistence that we focus only on the long term?

Maybe it's nothing more than a shrewd way of diverting our attention from the fact that he has underperformed the market over the last five years. After all, it could be argued that five years is a long enough period of time for Allmon's or any approach to show its stuff.

This isn't entirely fair, however. There is no statistical reason to expect that an adviser whose best years came more recently is a better bet for future performance. The important thing is the fact that Allmon has beaten the market since 1980—not that his best years came more than five years ago.

Though there may be no statistical basis for choosing the adviser whose best years came recently, there are other reasons why such a choice conceivably could make sense. Market conditions might have changed, for example, thereby rendering Allmon's approach less profitable.

Allmon falls within the Ben Graham tradition of investing, searching for companies with good "fundamental value" (based on factors such as assets, liquidity and earning power). He even claims apostolic succession from Graham himself *(see my Nov. 14, 1988 column)*. While it would be premature to conclude that the market is in one of its phases—such as that of the early 1970s—in which Graham's approach has less validity, some newsletters nevertheless entertain the possibility. Richard Russell, editor of *Dow Theory Letters*, for example, has speculated that the increasing role of foreign investors might mean that large-capitalization blue-chip companies will continue to outperform the secondary "growth" stocks typically recommended by Allmon.

The proper interpretation of Allmon's track record hinges upon this question: Has the growth stock phenomenon played itself out for a while? As umpire of competing newsletter performance claims, I would have preferred that the data themselves help us answer it. But the question is not a statistical one.

Put it this way: If the growth stock phenomenon isn't yet played out, then it isn't very important that Allmon's best years came in the early 1980s. But if it has, the fact that Allmon underperformed the market over the past five years is worrisome. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*

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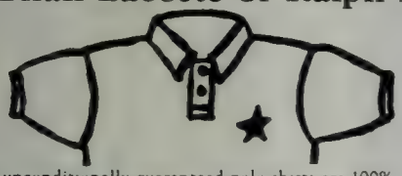

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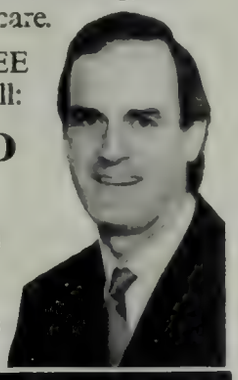

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Streetwalker

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Water slick

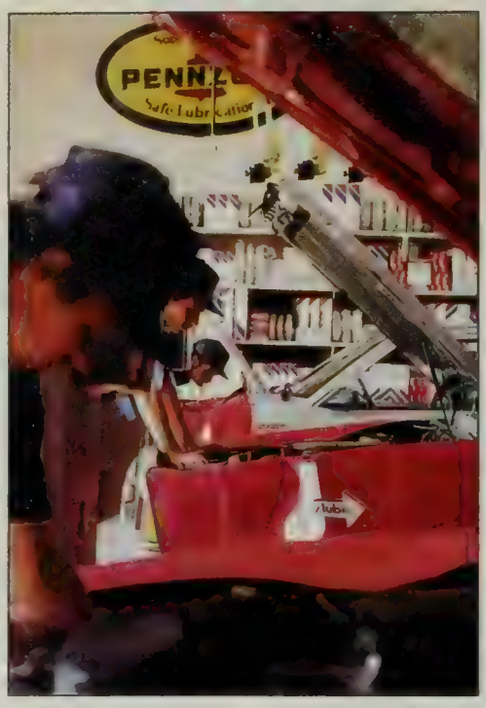
Talk about a highflier laid low. Consider Jiffy Lube International, Inc., the largest U.S. franchisor of quick-oil-change auto centers. For the fiscal year ended Mar. 31, 1988, Baltimore-based Jiffy Lube earned $7 million on sales of $78 million. But then the bottom dropped out, the result of overexpansion in a highly competitive market. In the most recent quarter, ended Dec. 31, Jiffy took $39.2 million in writedowns. For that quarter, operating losses—prior to most of those writedowns—were $6.8 million. Jiffy is in default on $120 million of long-term debt.

Selling as high as 14 last March, the stock by the end of 1988 was down to 5¾ over-the-counter. But recently Jiffy had rallied some, to 7¾, on heavy volume. Takeover rumors are rife. (There are 15 million shares; management, led by Chairman W. James Hindman, controls 27%.)

John Boland, of Baltimore's Value Investing Associates, isn't impressed by the takeover story. At current prices, he notes, the market is valuing the company—including debt and contingent liabilities—at more than $325 million. That's over $300,000 for each of Jiffy Lube's 1,020 outlets, 90% of which are owned by franchisees, and many of which appear to be booking losses.

Among Boland's concerns are a slew of franchisee-related assets carried on Jiffy's balance sheet. Almost half of the company's $42.5 million of reported shareholders' equity is in accounts and fees receivable, mostly from franchisees. Add to that $24.9 million of noncurrent notes receivable, more than covering what's left of the equity. Other assets Boland calls "soft" include lube shops that Jiffy owns (most of which were reacquired from troubled franchisees), investments in and advances to affiliates, and construction advances receivable.

But the single biggest question mark on the balance sheet, in Boland's opinion, is $79.3 million of "net investment in direct financing leases." This is the current value ascribed to future lease payments due from franchisees. It is partly offset on the liabilities side by $49.6 million of the company's capital lease obligations. Observes Boland: "If these numbers are accepted at face value, Jiffy Lube's mastery of lessor-lessee arithmetic creates a net asset of just under $30 million in Jiffy Lube's favor. The more leases they write, the richer they get. If the franchisees were healthy, that would be okay, but if they start defaulting, the asset could turn to water." Not oil. Water.



A Jiffy Lube oil-change center ***Slipping fast.***

Bearish on steel

John Tumazos, Donaldson, Lufkin & Jenrette's well-regarded steel analyst, expects steel markets to soften and profit margins to weaken by 1990. He's telling clients to take their profits in all six major steelmakers—Inland Steel Industries, Inc. (recent price of 44⅜), Bethlehem Steel Corp. (25½), Armco Inc. (10½), LTV Corp. (2⅜), USX Corp. (31⅜) and National Intergroup (17⅝). Analyst Tumazos sees the biggest risks in Inland and Bethlehem, as they have run up the most since the crash.

Tumazos estimates U.S. supply will increase 5% and shipments will fall 3% this year. As a result, he says, there's a large risk of lower selling prices. The analyst further notes that the operating rate for the industry will average about 80% of capacity this year, a level at which companies historically have lost their power over pricing. Meanwhile, labor and raw materials costs are rising. Note that in each of the last three quarters, both prices and margins rose, but neither rose enough to offset increased costs.

As little as a 2% price decline, a 2% cost rise and a small drop in volume, according to Tumazos, might cut operating margins from their recent 10% to 5%.

Tumazos expects that major steelmakers' net incomes before extraordinary items will decline by 10% to 15% in 1989—and by as much as 50% in 1990. And that's being generous, says Tumazos. He's not factoring in the prospect of higher interest rates, which would seriously hurt the industry's three leading markets—capital goods, automobiles and construction. Nor does he take into account the possibility of a rise in the dollar, which would also damage profits.

Tumazos worries about the longer term, too. In June minimill operator Nucor Corp. will start making sheet steel, and construction of numerous minimill sheet steel plants may begin in 1990 if Nucor's experiment succeeds. Moreover, the current labor contract covering four of the six companies expires July 31—union employees have not seen a pay raise for six years. Nervously contemplating these and other factors, Tumazos thinks the time has come to take profits on big steel.

How to restructure

Some restructurings are complicated and, worse, take a long time to bear fruit. Not so with $645 million (estimated sales) Phillips-Van Heusen Corp., the men's shirtmaker.

In 1987, in a flurry of activity, PVH sold its men's tailored clothing division and a chain of traditional clothing stores for $41 million. It bought shoe manufacturer G.H. Bass & Co. from Chesebrough-Pond's for $79 million—and repurchased 5.2 million shares at $28 apiece. To finance all this, it sold $73 million of convertible preferred stock; borrowed $77 million; and negotiated $100 million of additional loan agreements.

Now the dust has settled and revealed a robust company. For the fiscal year ended Jan. 31, Oppenheimer & Co.'s Dennis Rosenberg thinks PVH's earnings rose 24%, to $1.30 a share. In the current fiscal year he's looking for a 38% gain, to $1.80.

Particularly impressive has been the turnaround at Bass, which sells footwear under the Weejun and Bass trade names. Prior to its acquisition, the business had been a moneyloser.

But Phillips liquidated obsolete inventory, upgraded the product line and raised prices and advertising spending. Rosenberg says that on roughly flat revenues of $180 million, Bass' operating income last year more than tripled to $16 million.

Rosenberg also notes, approvingly, that the company has an incentive compensation program by which 11 executives will get bonuses of $1 million each in 1992 if cumulative profits per share, before those bonuses, equal or exceed $9.57 for the four years between 1988 and 1991. The stock is now 15½. In recommending the 9 million common shares outstanding (21% owned by the Phillips family), Rosenberg is betting that top management will do what it takes to earn that extra $1 million.

Trojan hair dryer

Procter & Gamble, through its Richardson-Vicks division, spent some $30 million last year advertising its successful line of Vidal Sassoon liquid hair care products. That's tantamount to free promotion for little Helen of Troy Corp. (estimated 1988 sales, $95 million).

Helen of Troy, of El Paso, Tex., manufactures a wide range of electrical hair care appliances under the licensed Vidal Sassoon trade name. At the same time that companies such as Norelco, Sunbeam, Gillette and Black & Decker have retreated from the business, Helen's line of hair dryers, curling irons and the like are doing great. To gain share in a tough marketplace that still includes Conair, Windmere and the Clairol division of Bristol-Myers, Helen has continually introduced new items, and repackaged older ones. Among the latest introductions: an automatic shut-off hair-curling appliance.

Richard Edelman of Dallas' Southwest Securities estimates Helen earned $1.85 a share fully diluted, up 48%, for the year ended Feb. 28, 1989. (The company recently called for the conversion of $20 million of 7¼% debentures into 1.8 million shares.) This year he expects earnings to increase another 27%, to $2.35 a share. So even though the stock has more than doubled over the last 12 months, to a recent 19, it's still priced at a reasonable eight times his estimate for the fiscal year just beginning. Given Helen's growth prospects, says Edelman, that's cheap. The founding Rubin family controls 19% of the 5.2 million o-t-c shares.

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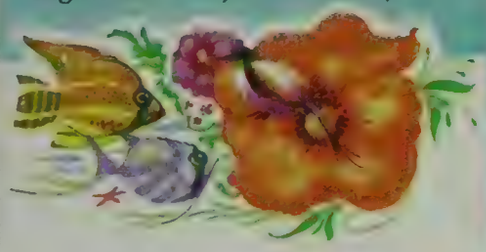

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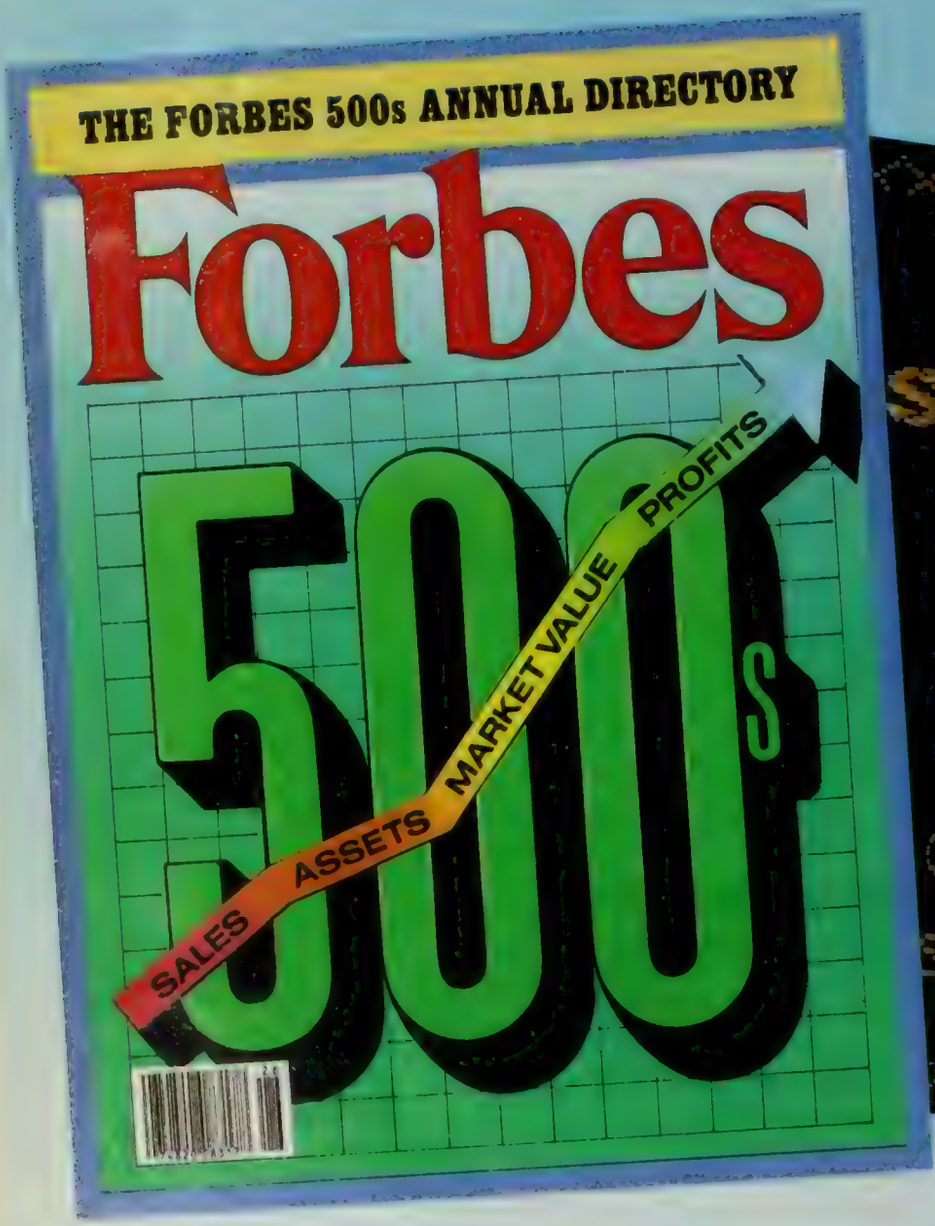

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"The more things change. . . ."
Items from past issues of FORBES

Seventy years ago in FORBES

From the issue of March 22, 1919)

"**In common with every** family throughout the world, I have hoped and prayed that this war would lead to a league or covenant designed to check all war hereafter. The first draft of the League of Nations probably needs a number of amendments. But rather than have the Peace Conference dissolve without forming any League whatsoever, mankind would be 1,000 times better off by accepting this or any other draft, even if it were 10,000 times more faulty than it is."—B.C. Forbes

Sixty years ago

From the issue of March 15, 1929)

"**American organized labor** has come out of the mists of equivocation in the field of tariffmaking and has taken an organized, open and bold stand for protection. . . . Labor has not gone in for high tariff as a panacea, nor has it swallowed high protection as a dogma to cover all cases. But it has, by and large, come to regard tariffmaking as something in which it must have a deep interest and through which it must seek protection against importations coming from lands where labor costs are low."

"**The [New York] Central's** officers, like a good many other shrewd railroaders, are still looking a little askance at the installation costs of new power. Electric locomotives at from $150,000 to $250,000 are luxuries indeed (the average steam locomotive still costs well under $80,000), while the special track installation runs from $175,000 to $200,000 a mile. That is why the Central people are giving especial attention at just this moment to the possibilities of the diesel or oil-electric locomotive."

Fifty years ago

(From the issue of March 15, 1939)

"**The whole world outlook** is better, better in the sense that the threatening European war clouds have notably lifted. Germany's financial-economic plight is becoming desperate, suggesting that Hitler will think twice before inflicting additional avoidable burdens on his already distraught people. . . . Meanwhile, Britain and France are girding on their armor at a rate calculated to cause hostile dictators to pause."

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Twenty-five years ago

(From the issue of March 15, 1964)

"**Many businessmen** have found the streets of suburbia paved with gold. The growth of suburbia created a boom in the home-building industry and in the building of shopping centers. It also created the two-car and three-car family. It made the electric lawnmower and the seed catalogue as indispensable as a knife and fork. . . . There's one business, however, that looks at suburbia with a baleful eye. To the shoe business, suburbia has proved to be a headache. As the suburbs have grown, most shoe retailers' profits have dwindled."

Ten years ago

(From the issue of March 19, 1979)

"**Flocking to these** [investment] seminars are thousands willing to plunk down as much as $3,000 to hear from people like [Julian] Snyder, Alan Greenspan, Arthur Laffer and Ronald Reagan that the U.S. is going to hell.

Alan Greenspan, now Fed boss, played the Gloom & Gold circuit in the late 1970s

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"**There are now,** by industry estimates, approximately 6,000 health-food outlets around the country, and their number is growing. They have a trade association, the National Nutritional Foods Association. . . . There are no good overall figures as yet, but what figures there are indicate they will do this year [over] $1 billion worth of business, maybe quite a bit more. And they are riding a boom of remarkably long standing. . . . Some 18 million people buy in health-food stores now, and over 2 million subscribe to the current health-food bible, *Prevention* magazine."

This 500-ton Northern Pacific locomotive was said to be the world's longest (for scale, see engineer standing at lower left)

Thoughts
on the Business of Life

The measure of progress of civilization is the progress of the people.
GEORGE BANCROFT

Far away in the sunshine are my highest inspirations. I may not reach them, but I can look up and see the beauty, believe in them and try to follow where they lead.
LOUISA MAY ALCOTT

The great law of culture: Let each become all that he was created capable of being.
THOMAS CARLYLE

What do we live for if it is not to make life less difficult for each other?
GEORGE ELIOT

Culture is the sum of all the forms of art, of love and of thought, which, in the course of centuries, have enabled man to be less enslaved.
ANDRÉ MALRAUX

We are never satisfied with our own.
TERENCE

Intelligent discontent is the mainspring of civilization.
EUGENE V. DEBS

Things do change. The only question is that since things are deteriorating so quickly, will society and man's habits change quickly enough?
ISAAC ASIMOV

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Change is inevitable in a progressive country. Change is constant.
BENJAMIN DISRAELI

It is well for civilization that human beings constantly strive to gain greater and greater rewards, for it is this urge, this ambition, this aspiration that moves men and women to bestir themselves to rise to higher and higher achievement. Individual success is to be won in most instances by studying and diagnosing the kind of rewards human hearts seek today and are likely to seek tomorrow.
B.C. FORBES

Ours is the age which is proud of machines that think, and suspicious of men who try to.
HOWARD MUMFORD JONES

If we are to preserve civilization, we must first remain civilized.
LOUIS ST. LAURENT

You can't have a better tomorrow if you are thinking about yesterday all the time.
CHARLES F. KETTERING

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CLAUDE ADRIEN HELVÉTIUS

Trying is the touchstone to accomplishment.
PAUL VON RINGELHEIM

Culture is properly described as the love of perfection; it is a study of perfection.
MATTHEW ARNOLD

Progress is the mother of problems.
G.K. CHESTERTON

The artist has a special task and duty: the task of reminding men of their humanity and the promise of their creativity.
LEWIS MUMFORD

A Text . . .

There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty.
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Real generosity toward the future consists in giving all to what is present.
ALBERT CAMUS

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ABRAHAM LINCOLN

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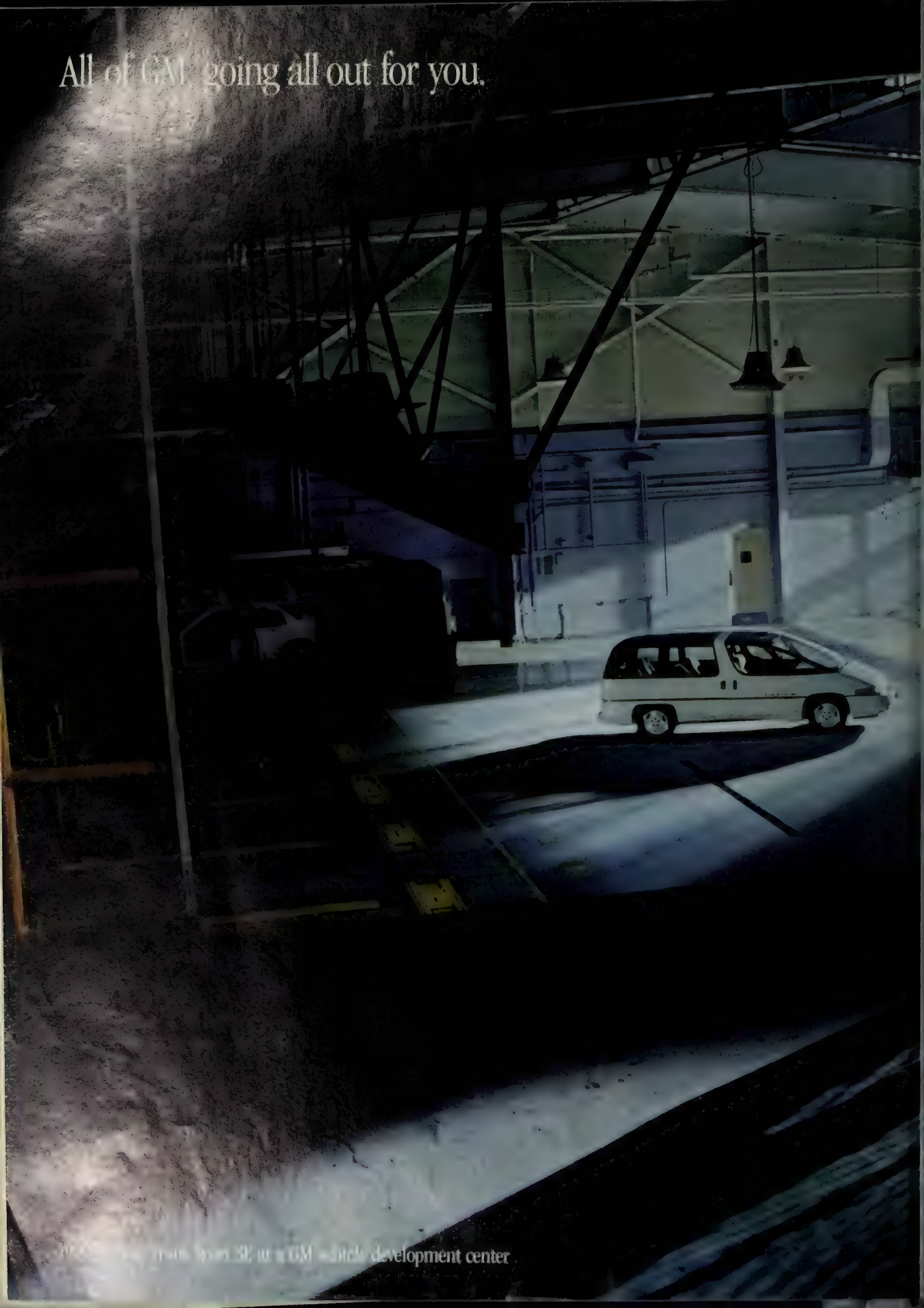
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